

# **Integrated Reporting in Sri Lanka: An Exploratory Study**

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## **Abstract**

This thesis explored the journey of integrated reporting (IR) of the publicly listed companies (PLCs) in Sri Lanka with four main purposes:

- To explore the extent and nature of IR disclosures published by the Sri Lankan PLCs using a disclosure index based on the international IR framework (IIRF).
- To explore the motives behind the voluntary adoption of IR using institutional theory.
- To investigate how do IR and integrated thinking foster each other in Sri Lankan PLCs.
- To discover the challenges encountered in the voluntary adoption of IR in Sri Lanka.

A qualitative methodological approach was adopted to address the research purposes. A triangulated data collection method was used during two phases. During the first phase, data were gathered through a content analysis of the entirety of corporate reports of the 34 PLCs listed in the Colombo Stock Exchange across the seven-year period from 2010 to 2016, examining 238 annual/integrated reports in total. This study developed a systematic and comprehensive disclosure index. During the second phase, this study carried out 62 semi-structured interviews based on a participant triangulation, including IR practitioners and other various IR actors who were involved in the IR process in Sri Lanka. Qualitative interview data were organised using NVivo software and analysed using thematic content analysis.

Findings revealed a growing trend of IR adoption by listed companies in Sri Lanka moving beyond an early adoption stage to a developmental stage of IR. Results showed evidence for companies which embarked on IR and prepared integrated reports even before the establishment of IIRF. However, the number of followers of the IR framework were less compared to the number of IR adopters. This study found a collective influence through the three external isomorphic forces (coercive, mimetic and normative) and internal isopraxism forces in determining the motives behind the voluntary adoption of IR in Sri Lanka. The study also found hybrid definitions and approaches in practice when interpreting and perceiving the relationship between IR and integrated thinking by the interviewees. In terms of quality scores for guiding principles, consistency and comparability was ranked highest followed by strategic focus and future orientation, and stakeholder relationship. Based on disclosure scores for content elements, the most information was disclosed for governance. Nevertheless, interviewees revealed challenges, issues and criticisms in relation to implementation of IR, preparation of

integrated reports, IR framework and its components, value relevancy of IR, and achieving credibility and conciseness in integrated reports.

This thesis extends its significant contributions from scholarly, theoretical, methodological and practical perspectives as follows:

- By assessing and synthesising past IR research through a comprehensive and broader review, this offers scholarly contributions to the advancement of knowledge on IR research.
- The distinct nature of the present research stands as the first study in a developing country context to provide a structured and comprehensive IR disclosure index as a benchmark for analysing and evaluating the level of compliance with the IIRF and for assessing the extent and nature of the IR disclosures extending scholarly, methodological and practical contributions.
- This adds methodological contributions by addressing a longitudinal analysis of the corporate reporting practices with special reference to IR disclosures over a seven-year period of analysis from 2010 to 2016, covering both pre- and post-regulation periods of the IR framework, where no previous studies have been addressed such. The participant triangulation also extends the methodological contributions.
- The use of institutional theoretical lens with institutional isomorphisms and isopraxis provides theoretical contributions. This study contributes to the existing knowledge by proposing a theoretical framework to conceptualise integrated thinking in practice through a stakeholder approach to multi-capitals management.

The learning through the findings of this study extend practical contributions as implications for current and potential IR practitioners by providing useful insights. The empirical findings drawn from a voluntary setting for IR in an emerging country inform ongoing discussions of policy makers, local and international regulatory authorities, standard setters on the IR disclosure practices over time and bring in attention to specific areas to refine, upgrade and improve disclosure guidelines and policies in IR and also provides practical implications to accounting firms, professional and educational institutions as assurance providers, award organizers, evaluators, advocates and educators in IR. Testing the proposed framework empirically and comparative analyses involving developed and developing country and mandatory and voluntary settings in IR and technology enablers in IR would be avenues for future research.

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## **Abbreviations**

|       |  |
|-------|--|
| ACCA  | Association for Chartered Certified Accountants            |
| ARs   | Annual Reports   |
| ARPCs | Annual Report Producing Companies                          |
| BM    | Business Model   |
| CASL  | Institute of Chartered Accountants of Sri Lanka            |
| CBSL  | Central Bank of Sri Lanka                                  |
| CEs   | Content Elements   |
| CIMA  | Chartered Institute of Management Accountants              |
| CMASL | Institute of Certified Management Accountants of Sri Lanka |
| CSE   | Colombo Stock Exchange                                     |
| CSR   | Corporate Social Responsibility                            |
| GPs   | Guiding Principles   |
| GRI   | Global Reporting Initiative                                |
| IASB  | International Accounting Standards Board                   |
| IAASB | International Auditing and Assurance Standards Board       |
| IFAC  | International Federation of Accountants                    |
| IFRS  | International Financial Reporting Standards                |
| IIRC  | International Integrated Reporting Council                 |
| IIRF  | International Integrated Reporting Framework               |

|         |   |
|---------|---|
| INRs    | Integrated Reports  |
| INT     | Integrated Thinking   |
| IR      | Integrated Reporting  |
| IRCSA   | Integrated Reporting Council South Africa                         |
| IRCSL   | Integrated Reporting Council Sri Lanka                            |
| PAOs    | Professional Accounting Organisations                             |
| PLCs    | Public Listed Companies   |
| SDGs    | Sustainability Development Goals                                  |
| SEC     | Securities and Exchange Commission                                |
| SL      | Sri Lanka   |
| SLAASMB | Sri Lanka Accounting and Auditing Standards<br>Monitoring Board   |
| SLAuS   | Sri Lanka Auditing Standards                                      |
| SLFRS   | Sri Lanka Financial Reporting Standards                           |
| SR      | Sustainability Reporting  |
| TACT    | Trustworthiness, Auditability, Credibility and<br>Transferability |
| TCR     | Traditional Corporate Reporting                                   |
| VCM     | Value Creation Model  |

# Chapter 01

## Introduction to the Research

### 1.1 Introduction to the topic

The doctrine of Milton Friedman, as presented in his classic article (1970), “The Social Responsibility of Business is to Increase its Profits”, offered several arguments for his stockholder theory of corporate moral responsibility. According to Friedman (1970), a corporation is only responsible to its stockholders, and thus should focus on profit maximisation efforts in order to promote the financial well-being of its stockholders. He further articulated that an organisation is an artificial legal fiction and that the organisation’s money is owned by the stockholders. Not surprisingly, that was an era during which corporations and individuals were getting ready to face the onset of global competition and were focusing purely on ways of increasing their returns. In the 1970s, political influence also urged a focus on capitalism through the free market economy. This led to classical-liberalism and neo-liberalism as pro-capitalist ideologies that work to preserve capitalism and the power of wealth. Friedman (1970) closes his article by quoting a statement from his book *Capitalism and Freedom* (1962): “There is one and only one social responsibility of business-to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to, engages in open and free competition without deception or fraud”.

In other words, the over-focus on short-term financial factors neglected the concerns of employees, customers, society or environment over longer time scales, and thus brought about economic, social and environmental challenges towards not only businesses or mankind but the whole planet at large, posing a direct or indirect threat (Khoza, 2002). The impact of economic challenges has caused financial crises (for example, onset of the banking crisis in 2007), global recessions, government deficits and debt at unprecedented levels, bankruptcy of businesses and imposition of severe government rules and measures (Krzus, 2011). The soaring unemployment, lost homes to foreclosures, poverty and human rights violations are some of the social challenges, and these are compounded by the potential environmental challenges, such as climate change, water shortages, depletion of

natural resources and pollution, etc. (Krzus, 2011). For example, one of the key messages in the Intergovernmental Panel on Climate Change (IPCC) is that the world will become less rich for all if individuals and businesses do not tackle climate change as a shared problem and that climate would be a disaster for humanity (IPCC, 2018). The United Nation's (UN) Sustainable Development Goals (SDGs) were also established with a shared need to tackle most of the above challenges and provide a global blueprint for dignity, peace and prosperity while protecting the planet, now and in the future (UN, SDG report, 2018).

With these challenges, the business world has come to a turning point to rethink their return on investment. The biggest challenge businesses have is that they define return on investment so narrowly by missing the things that are valuable to businesses and ignoring fundamental aspects that drive sustainable business value. Sustainable business value can be classified in to two components: financial economic sustainability to create value for shareholders or investors and non-financial sustainability to create value for other stakeholders, including business partners, employees, suppliers, customers, government, society at large, etc. (Rezaee, 2016). The need for non-financial sustainable business value emerged with a focus on the three central ESG factors (environmental, social and governance), along with the value of intangibles, in measuring the sustainability and ethical impact of an investment in a business, which would better explain future financial as well as non-financial business performance.

Therefore, in the wake of these challenges, especially the global economic crisis of 2007, there has been a call for more transparent reporting, urging a clear global need for greater coherence in corporate reporting. Integrated reporting (IR) arose with the desire to promote and deliver market resilience through financial stability and sustainable development needs. IR is intended to underpin both of these corporate reporting needs of the 21<sup>st</sup> century. The heart of IR relies on financial factors and a wide range of non-financial factors in order to create and sustain value for the organisation itself and for other stakeholders (IIRC, 2013b).

The need for transparent corporate reporting by businesses has led to a growing demand of financial and non-financial information provided with a short, medium and long-term focus

to tailor to diverse stakeholder requirements. The push towards environmental, social, governance, ethical and intangible factors landed perfectly on business entities by emphasising the need to have a social and environment focus as well as a long-term plan for their stakeholders. Thus, the need and significance for non-financial information is highlighted and attended to by many countries and business organisations. For example, Sustainable, Responsible and Impact (SRI) investing in the United States, which includes institutional investors and financial institutions who have considered various dimensions of non-financial sustainability performance in their investment research, analysis and decision making has grown by 44% from \$8.1 trillion in 2016 to \$11.6 trillion in 2018 (USSIF<sup>1</sup>, 2018). Rezaee (2016) stated that in 2012, this trend was an improvement by 22% compared to 2010. The European Union (EU) requires around 6000 companies in Europe to disclose in their corporate reports information on policies, risks and outcomes regarding environmental matters, social and employee aspects, respect for human rights, anticorruption and bribery issues and diversity in their board of directors (IIRC, 2017). To encourage greater uptake of non-financial information, the EU issued a non-financial reporting directive (Directive 2014/95/EU, 2018) as a significant step to increase corporate transparency, relevance, consistency and comparability in the non-financial information of large enterprises across Europe (EC, 2019).

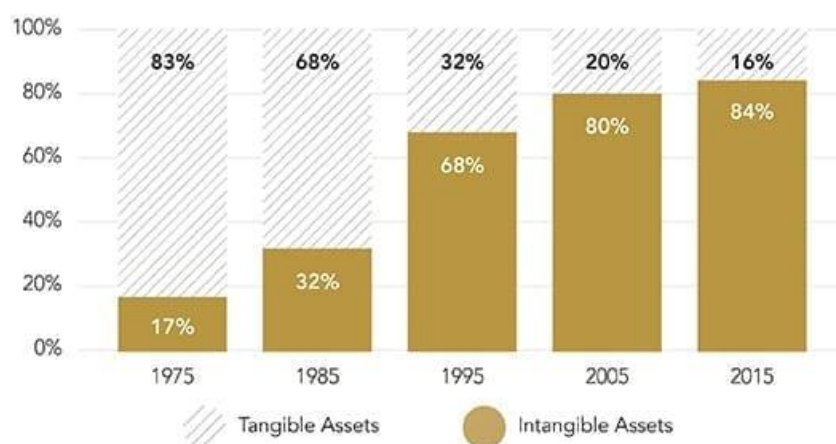


Figure 1.1: Components of S&P 500 market value growth of intangible assets (Source: Ocean Tomo, 2017)

<sup>1</sup> The Forum for Sustainable and Responsible Investment in the United States.

In a Harvard Business Review article titled “Does Wall Street Finally Care About Sustainability?”, the world’s largest asset owner and the Chief Executive Officer (CEO) of BlackRock, Larry Fink, stated that he does not want to make money, but to create value (HBR, 2018). He calls on S&P 500 index<sup>2</sup> CEOs to realize their companies’ social responsibility and to act with social responsibility to see beyond short-term gains. In terms of the value to the business in intangibles, “Intangible Asset Market Value Study” by the consulting firm Ocean Tomo reported that intangible assets have risen to a staggering amount of 84% (more than four-fifths) of S&P 500 market value. Back in 1975, the tangible assets comprised 83% of the S&P 500 market value with the other 17% being made up of intangible assets (Ocean Tomo, 2017) (see Figure 1.1). These intangibles include human ideas, intellectual property, employer loyalty, customer loyalty, innovation, etc., and could act as resilient risk-reduction mechanisms. In a parallel line, in 2018, the Global Intangible Finance Tracker (GIFT) examined the reported intangible assets as well as the estimated intangibles that go unreported for major corporations around the world, and it found that, on average, 92% of the total value of the top 10 companies (Amazon, Microsoft, Apple, Alphabet, Alibaba, Facebook, Tencent, Johnson & Johnson, AT&T, and Anheuser-Busch InBev) (based on intangible asset value) is comprised of intangible assets (Brand Finance, 2018).

All these facts indicate that businesses’ focus has shifted and broadened to integrate the value of their non-financials together with their financials. The demand for extensive non-financial information regarding environmental, social and governance aspects of organisations’ activities is addressed in reporting literature too (Abeysekera, 2013; Eccles & Krzus, 2010; Eccles, Serafeim, & Krzus, 2011; Ruiz-Lozano & Tirado-Valencia, 2016; Wild & van Staden, 2013). In response to that demand, traditional corporate reporting has been expanded with additional information, while increasing the pressure on companies to incorporate corporate accountability, transparency and the stewardship of organisational activities into traditional reporting practices. However, much research has criticised the same due to the extensive, complex and disconnected nature of disclosures provided in it

---

<sup>2</sup> Standard & Poor's 500 Index is a market-capitalisation-weighted index of the 500 largest U.S. publicly traded companies.



(Adams, Fries, & Simnett, 2011; Cheng, Green, Conradie, Konishi, & Romi, 2014; Eccles & Krzus, 2010; Eccles & Serafeim, 2011; IIRC, 2011). IIRC (2011) states that it is not enough to keep on adding more information, but the connection needs to be made clear and the clutter needs to be removed. In a similar voice, the Financial Reporting Review Panel and Accounting Standards Board (2011) states that length and excessive detail can obscure critical information rather than adding value (IIRC, 2011). Affirming the same, Jensen and Berg (2012) state that this separated reporting of financial and non-financial aspects would make sense if it occurred independently in the company. However, they further highlight that financial and non-financial aspects are interrelated when corporate social and environmental reporting is incorporated into the strategy as reflected in IR.

This chapter introduces the research topic of the thesis, and the remainder is structured as follows. Section 1.2 provides the research background for the research. Motivation for the research is presented in section 1.3. Research questions are provided in section 1.4. Contribution of the research is discussed in section 1.5. Section 1.6 concludes the first chapter by providing the structure of the thesis.

## **1.2 Background to the research**

The following excerpt is quoted in a joint research paper by the Institute of Management Accountants (IMA) and Association for Chartered Certified Accountants (ACCA), as the overview of IR and its context:

Over the last few decades, sustainability issues have slowly become mainstream, and there is a shift from the creation of share value to the generation of shared value. Through shared value creation, a company links its operations to generating long-term value both for its business and for society as a whole and defines its success in terms of internal financial returns and external social and economic results. Ultimately, creating shared value acknowledges both the work corporations need to do to reduce negative impacts on society, as well as, and more fundamentally, how they can be part of progress on global challenges, such as climate change and the enforcement of human rights. Following this shift, there is a new trend of corporate reporting: the integration of financial and nonfinancial concerns into one accounting tool, known as IR (IMA & ACCA, 2016, p.6-7).

Integrated reporting (IR) has evolved as the latest development in corporate reporting reform, paving the way to overcome the criticisms and shortcomings challenging traditional corporate reporting mechanisms. IR has rapidly gained significant importance

since the launch of the International Integrated Reporting Council (IIRC) in 2010 (de Villiers, Rinaldi, & Unerman, 2014). In August 2010, the International Federation of Accountants (IFAC), the Global Reporting Initiative (GRI), and the Prince of Wales' Accounting for Sustainability Project formed the IIRC (ACCA, 2011). IR has arisen to address such deficiencies in current reporting regimes, and it is not merely a merger of financial and non-financial reports, but much more than a public report to stakeholders, and adopting an integrated approach will involve a fundamental shift in an organisation's business model as they examine value creation through multiple dimensions (ACCA, 2011). Several studies have identified IR as an opportunity for improving transparency, governance and decision making for organisations of all types (Adams & Simnett, 2011; Adams et al., 2011; Eccles & Krzus 2010).

With an aim of developing a common agenda for communicating the process of value creation by companies and to assist organisations with the process of IR, IIRC proclaimed the International Integrated Reporting Framework in December 2013 (IR framework). The IR framework reinforces the connections between an organisation's strategy, governance, performance and prospects, including guiding principles and content elements, through which a more concise, coherent and balanced picture of organisational performance is expected to be contained in a single, separate report called an 'integrated report'. The use of this framework facilitates connections between financial and non-financial information and contributes to sustainable value creation (Eccles & Krzus, 2010; Eccles & Serafeim, 2011), which in turn would help businesses to take sustainable decisions and would enable investors and other stakeholders to understand how an organisation is really performing (Adams & Simnett, 2011). Thus, IR makes a strong dialogue between businesses and investors.

IR is strategic and future-oriented communication about how organisations draw on the different resources and relationships available to them in creating value (IIRC, 2013b). These resources and the relationships used, affected by and that impact on the organisation are referred to as capitals, and companies' dependence upon these capitals are referred to as capital trade-offs in the IR framework. According to IIRC, the different forms of capital are financial, manufactured, human, intellectual, social and relationship and natural.

Further, IR is a process founded on integrated thinking and it helps organisations to think in a holistic way about their strategy and plans, make better-informed decisions, manage key risks to build investor confidence, take advantage of key opportunities and improve future performance (IIRC, 2013b). The IIRC's vision is to align efficient and productive capital allocation and corporate behaviour as forces for financial stability and sustainable development through the cycle of integrated reporting and thinking (IIRC, 2019).

### **1.3 Motivation for the research**

IR evolved as a new corporate reporting reform and serves as a platform to furnish corporate reporting while enabling stakeholders to better understand the cause and effect relationship and the dependencies between financial and non-financial performance (Eccles & Krzus, 2010). IR has been identified as the next step in the corporate reporting evolution (IIRC, 2011). As in the vision of IIRC, the idea of IR and integrated thinking revolutionised the reporting landscape and enabled companies to adopt a more holistic form of reporting within mainstream business practice. Following the IIRC's vision, motivation for the present study was based on the timely relevance of IR and its potential to become the new corporate reporting model.

IR is a new and emerging approach to reporting (Adams & Simnett, 2011; Lee & Yeo, 2016). However, scholars have brought up that there is minimal empirical research that focuses on IR in practice (Dumay, Bernardi, Guthrie, & Demartini, 2016; Stubbs & Higgins, 2014). The vast majority of IR research does not examine the practice of IR or engage practitioners (Dumay, et al., 2016). Further, scholars have investigated issues that exist in developing IR practice (Cheng et al., 2014; de Villiers et al., 2014; Flower, 2015). Thus, the present study offers a platform to address the underexplored areas in IR literature by developing an understanding about the impact of this new reporting mechanism by exploring the IR disclosures communicated through the corporate reports and the challenges encountered by the practitioners of IR in adopting, implementing and practicing IR. Corporate reporting provides insights into how a company views itself and its role in society by communicating the company's performance both in financial and non-financial terms (Krzus, 2011). This study also explores a research gap (Jensen & Berg, 2012) about

the motivations for adopting IR from the practitioners' perspective. Moreover, this study uncovers the possible explanations of how integrated thinking and IR interrelate and foster each other in the organisational value creation process over the short, medium, and long term.

According to IIRC, the journey towards IR is not one taken alone because the momentum towards global adoption for IR is growing across the world. Hence, the present study is motivated to explore whether IR creates a momentum and pace in Sri Lanka by aligning the corporate reporting landscape with this new reporting movement.

Motivation for this study and the reason to select Sri Lanka is further enhanced because of the existence of an Integrated Reporting Council in Sri Lanka (IRCSL), which is Asia's first such council under the patronage of IIRC, the global coalition for IR that promotes communication about the value creation story of businesses as the next step in the evolution of corporate reporting.

The study was also motivated to be carried out in Sri Lanka because of a Sri Lankan listed company which was one of the pilot programme participants who helped IIRC to draw up the International Integrated Reporting Framework in December 2013, and who still plays an influential advocacy role as part of IIRC's International Business Network. This company continues to enjoy real success through IR by being the winner in IR awards in Sri Lanka. This study was interested to explore whether IR helps other Sri Lankan companies to make Sri Lanka a hot spot for IR by being the vehicle for Sri Lankan companies to improve the quality of their corporate reporting.

#### **1.4 Research questions**

Flowing from the motivation, this study explores IR in Sri Lanka as an exploratory research.

1. What is the extent and nature of IR disclosures published by the Sri Lankan publicly listed companies (PLCs)?
2. What motivates Sri Lankan listed companies to voluntarily publish integrated reports?

3. How do integrated reporting and integrated thinking foster each other in Sri Lankan PLCs?
4. What challenges do Sri Lankan PLCs encounter in the voluntary adoption of IR?

### **1.5 Contribution of the research**

This research makes scholarly, methodological, theoretical and practical contributions to the existing IR literature in several ways.

The present study's literature review approach offers scholarly contributions to the IR literature in three ways. First, the study provides an accumulated advancement of knowledge on IR and facilitates the development of new theories, extension of existing theories and calls for areas for future research on IR. The few IR studies evidence a dearth of IR research, especially in the area of 'IR literature studies' (Dumay et al., 2016; Oll & Rommerskirchen, 2018; Perego, Kennedy, & Whiteman, 2016; Velte & Stawinoga, 2017). The present study contributes to the existing knowledge on IR by addressing the current state of IR with a widespread focus on the need of IR and conceptual and empirical studies of IR to date under broader themes and subthemes. Second, the present study extends the research carried out by Rezaee (2016) on business sustainability research to IR research. Extending Rezaee (2016) into IR with the intention of developing the path forward in IR research, the present study's primary focus is to provide a synthesis of research on IR. Third, the study offers a platform to address one of the future directions raised by Dumay et al. (2016) by developing an understanding about the impact of a new reporting mechanism, the IR, on practices through a comprehensive and broader review (Webster & Watson, 2002) of IR studies that has been undertaken so far. This review approach of the study is unique and different from the prior research that has reviewed IR literature in two ways. First, this study includes both academic research papers (Appendix A, B and C) and professional research reports (Appendix D and E) published on IR. Second, this study also reviews articles published in proceedings of peer-reviewed conferences.

This research adds scholarly contributions to the IR disclosure literature by developing a structured and comprehensive disclosure index based on the IR Framework for measuring the IR disclosures. Given the dearth of IR disclosure index-based studies which capture the

three main facets of IR framework, the seven guiding principles and eight content elements that govern the overall content of an integrated report and three fundamental concepts that underpin the content of an integrated report, the present study has designed the index items primarily and exclusively on the IR framework. In this sense, the current study overcomes several shortcomings in these prior IR disclosure-based studies by using the IR framework as the sole regulatory framework available for measuring IR and thus addresses future implications of past IR disclosure-based studies which called for the need of a more detailed guidance on preparing integrated reports to provide insight into disclosure practices of IR based on the IR framework (Doni, Gasperini, & Pavone, 2016; Setia, Abhayawansa, Joshi, & Huynh, 2015; Wild & van Staden, 2013), the extent of the influence the IR framework will have on the content and presentation of integrated reports produced subsequent to the introduction of the IR framework (de Villiers et al., 2014; Setia et al., 2015; Stent & Dowler, 2015; Wild & van Staden, 2013) while developing a practicable (Liu, Jubb, & Abhayawansa, 2018) IR disclosure index. Thus, the disclosure index developed and used in the present study can be a starting point for most future academics as well as business organisations to operationalize and assess the adoption of IR disclosure practices based on the IR framework.

This research addresses a methodological gap in the IR literature by conducting a longitudinal analysis of the extent and nature of the IR disclosures from 2010 to 2016, covering the periods both prior to and after the introduction of the IR framework. According to best knowledge of the researcher, this study provides the first empirical evidence that captures longitudinal changes in IR practices before and after the adoption of the IR framework based on a disclosure index of the IR framework. As suggested by Setia et al. (2015), by extending the period of investigation to the pre- and post-regulation periods would provide conclusive evidence of the impact of regulation on the extent of IR disclosures. The triangulated research methods used in the present study, which combine the secondary data sources (through annual reports reviewed over seven years) and primary data sources (through a semi-structured interview process based on a participant triangulation of different IR actors including IR adopted companies) would also contribute to the IR disclosure research methodologies as a way of validating the analysis of documentation review through analysis of the interviews.

Therefore, the methodological contribution through the triangulated research methods and the longitudinal analysis, the scholarly contribution through the systematic and comprehensive IR disclosure index prepared based on International Integrated Reporting Framework (IIRF) and the practical contribution through its application on 34 IR adopters over seven years provide the first evidence in exploring the extent and nature of the IR disclosure practices while providing the first evidence of a learning scenario from a developing country perspective.

This study bridges a theoretical (as well as scholarly) gap in the existing body of IR literature (Adams, 2015; de Villiers et al., 2014; Jensen & Berg, 2012) by exploring why the selected organisations have driven towards the adoption of IR and also by highlighting how the institutional context of the corporation has an impact on the adoption of IR through the application of institutional theory. In the present study, it appeared that the existing literature has addressed the ‘whether’, ‘what’ and ‘how’ aspects of IR practice (Haji & Anifowose, 2016b) and that what lacks in IR literature is the ‘why IR’ aspect. Thus, the present study closes a research gap by addressing what motivates companies to voluntarily publish integrated reports in Sri Lanka. Theoretical contributions of this study also extend the application of institutional theory by highlighting how homogeneous factors leading the IR adoption in Sri Lanka, which are explained as external drivers through three isomorphism forces (coercive, mimetic and normative) and how heterogeneous factors which are explained as internal drivers of IR adoption through the isopraxism forces. Hence, the present research findings may provide potential to other organisations who seek to undertake or who have already adopted IR by revealing what is necessarily encouraging more companies to adopt IR.

This study has also used a stakeholder theoretical lens to conceptualise integrated thinking in practice based on a proposed theoretical framework. With this proposed theoretical framework, the present study addresses a research gap in existing academic and professional integrated thinking literature (Deloitte, 2015; Doni et al., 2018; Feng, Cummings, & Tweedie, 2017; Oliver et al., 2016), namely, how to operationalize integrated thinking in practice while placing attention on organisational value creation

through integrated thinking and how integrated thinking can be achieved through a stakeholder management approach towards managing these multi-capitals.

Furthermore, this research extends the scholarly, methodological and theoretical contributions from a practical perspective by providing an understanding of what is necessarily encouraging more companies to adopt IR, how IR and integrated thinking and their relationship is perceived by PLCs, what is the extent and nature of IR disclosures of PLCs, and what challenges are encountered in the journey towards IR in Sri Lanka. The present study provides fruitful knowledge for current and especially for future researchers, leading them to a new era which broadens, opens, detects the gaps and calls for new knowledge on integrated reporting and integrated thinking domains. This also extends practical contributions as implications for current and potential IR practitioners, policy makers, regulators, standard setters, educational and professional authorities locally and internationally.

## **1.6 Structure of the research**

This thesis comprises twelve chapters.

**Chapter 1 (Introduction to the research)** introduces the research topic, IR. This chapter consists of the background to the research, motivation for the research in terms of research topic and context, research questions, research contribution and the structure of this thesis.

**Chapter 2 (Research background)** elaborates the background for the research by discussing the evolution of IR, IIRC and IR framework, differentiating IR from other corporate reporting methods, explaining components of IR, addressing integrated thinking and the benefits and challenges of IR. This chapter also includes the recent developments in IR, recent developments in IR in other countries, IR in developing countries and IR in Sri Lanka.

**Chapter 3 (Literature review)** discusses and analyses the existing literature on IR through a review approach which is carried out in two stages. This chapter reveals the review findings related to stage one of the review approach based on five classification themes of literature, namely, research topic, research setting, research methods, primary data analysis tools and



research theories of the past IR research. The review findings related to the stage two of the review approach are presented as a detailed analysis under three main themes: shortcomings of traditional corporate reporting, normative or conceptual studies of IR and empirical studies of IR.

**Chapter 4 (Theory)** explains the theoretical underpinning for the research through the lens of new institutional theory. Three institutional isomorphism forces – coercive, mimetic and normative and isopraxism forces are also discussed. This chapter provides a synthesis of theories used in other IR studies and of the potential of IR as well as its practical implications. This chapter also presents the proposed theoretical framework to conceptualise integrated thinking in practice through a multi-stakeholder approach based on the stakeholder theory.

**Chapter 5 (The accounting profession in Sri Lanka)** explains the research setting country, Sri Lanka. This chapter comprises the socio-economic environment, business environment, financial reporting framework and accountancy profession in Sri Lanka. The role of professional accounting organisations (PAOs) in promoting IR in Sri Lanka is also discussed in this chapter.

**Chapter 6 (Research methodology)** presents the details of the research methodology used in exploring IR in Sri Lanka. This chapter describes the philosophical position, the research paradigm, the research approach, the research design, the sample selection process, the triangulated research methods of data collection, sources of data and the data analysis processes of the present study. Development of the IR disclosure index and the validity and reliability assessment is also provided in this chapter.

Research findings are discussed in chapters 7 to 11.

**Chapter 7 (Trends in IR adoption in Sri Lanka)** presents research findings related to the trends of IR in Sri Lanka while laying the setting for subsequent chapters. The trends in adoption of IR across time and sectors, adoption of IR based on the IR framework and other methods, adoption of sustainability reporting, issuance of audit financials and external assurance on non-financials, utilisation of annual report producing companies, report size and disclosure of capital and value creation are discussed in this chapter.

**Chapter 8 (Drivers of IR in Sri Lanka)** reveals the external and internal drivers of IR, explained through institutional isomorphism and institutional isopraxis forces. This chapter also presents the evidence of entities who ceased IR practices.

**Chapter 9 (Realisation of IR and integrated thinking)** discusses the real sense of IR and integrated thinking (INT) concepts in Sri Lanka, together with the details of the relationship between IR and INT in fostering each other.

**Chapter 10 (Extent and nature of IR disclosure practices)** explores the extent and nature of the IR disclosure practices of the publicly listed companies in Sri Lanka. This chapter provides the level of compliance with the seven guiding principles, the level of adoption of eight content elements and the analysis of multi-capitals by the Sri Lankan PLCs over the study period.

**Chapter 11 (Challenges and issues of IR)** elaborates the challenges, issues and barriers confronted by the sample companies in implementing IR, in preparing integrated reports, with the IR framework and its components, in value relevancy of IR, in achieving conciseness and obtaining assurance.

**Chapter 12 (Conclusion)** concludes the thesis by summarising the key research findings, presenting theoretical, methodological and practical contributions, research implications, and identifying research limitations and directions for future research.

References and the appendices are provided in the final section of the thesis.

## **Chapter 02**

### **Research Background**

#### **2.1 Chapter introduction**

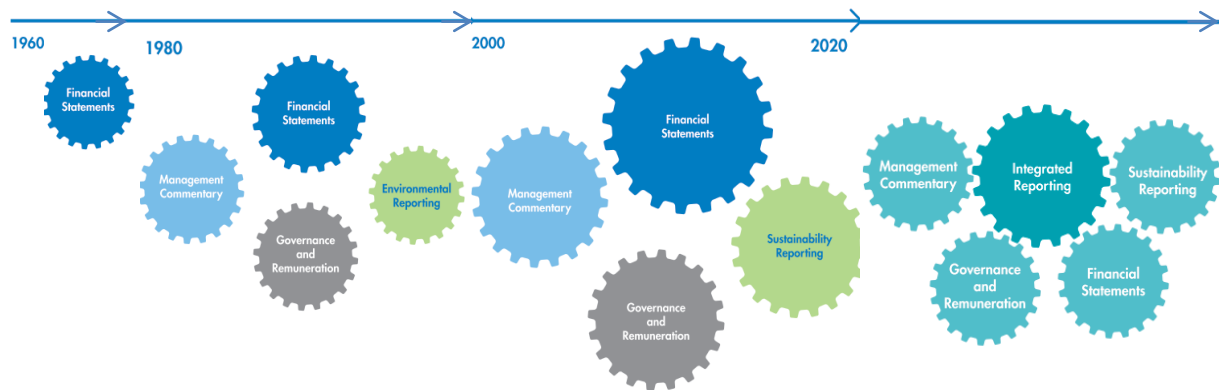
The current chapter lays the background for the present study following the research questions identified in the preceding chapter. Section 2.2 provides the evolution of IR. The concepts of IR and integrated reports are identified in section 2.3. The discussion about IIRC is in section 2.4. Corporate report comparison and how IR is different are addressed in sections 2.5 and 2.6. Section 2.7 identifies the users of integrated reports. Section 2.8 outlines the IIRF. Components of IR are explained in sections 2.9 to 2.11. Integrated thinking is addressed in section 2.12. Benefits and challenges of IR are discussed in sections 2.13 and 2.14. Recent developments in IR are discussed in section 2.15 and section 2.16 addresses IR in other countries. The last two sections, 2.17 and 2.18, highlight IR in developing countries and IR in Sri Lanka, followed by the chapter summary in section 2.19.

#### **2.2 The evolution of IR**

Over the years, on its way towards responding to the globalised business environment, the concepts, elements and principles in corporate reporting have been questioned, debated and redesigned with new laws, rules and regulations, standards, codes, guidelines, frameworks and stock market listing requirements, and companies have been encouraged to provide extensive information, more complex financial reports, comprehensive management discussions, increased reporting on governance and remuneration, and information on social, environmental, governance and sustainability aspects of the organisation (Figure 2.1) (IIRC, 2011, 2013b; Frias-Aceituno, Rodríguez-Ariza, & Garcia-Sánchez, 2014).

Reporting is seen as a legal compliance process by many organisations, rather than as a process for communicating what matters (IIRC, 2011; IRC SA, 2011). As a result, different strands of reporting have tended to evolve separately and differently, with additional requirements and information requests being bolted on to the existing model, rather than

being integrated into it (IIRC, 2011). This has increased the reporting and administrative burden for the growing number of organisations that report in more than one jurisdiction, while resulting in divergent disclosure practices that inhibit investors, management and other stakeholders from understanding and comparing the information they need for decision-making (IIRC, 2011).



*Figure 2.1: The evolution of corporate reporting (Source: IIRC, 2011)*

The time has come to step back, rethink and call for a coordinated international action concerning what information is needed in corporate reports to provide a clear and concise picture which drives innovation, focuses on communication and not just compliance, and supports resource allocation decisions that are consistent with sustained value creation and with long-term economic stability (IIRC, 2011). Successively, IR has evolved as the latest development in corporate reporting reform, while addressing and overcoming the criticisms and shortcomings of traditional corporate reporting (TCR) (these shortcomings of TCR are discussed in detail in section 3.5.1 of chapter 3). IR is a process recommended by IIRC.

### 2.3 IR and an integrated report

**Integrated reporting (IR)** is a process of communicating an organisation's unique value creation story to the stakeholders. According to IIRC, this value creation over time would be reported in a concise and balanced report, called an **integrated report**, which would communicate an organisation's strategy, governance, performance and prospects, in the context of its external environment, and lead to the creation of value over the short, medium

and long term (IIRC, 2013b). IR integrates financial, social and environmental information into a single report for stakeholders in a format that is concise, clearly expressed, consistent and comparable (Eccles & Krzus, 2010). In EY (2014), IR has been described as reporting that provides context to financial and non-financial information and goals which connect strategies with the organisation's commitment to the long-term stewardship of the material environment, social and economic issues. As elicited from Jensen and Berg (2012), IR appears in line with the actual business and is more closely related to the information used by the company's management. They have further stated that greater transparency of cost and benefits leads to better exposure of the actual sustainability performance in relation to achieved goals.

As IIRC predicts, and as in its vision, IR will be the corporate reporting norm in future. The IIRC's vision statement states:

“Our long-term vision is a world in which integrated management and thinking are embedded within mainstream business practice in the public and private sectors, facilitated by IR as a corporate reporting norm. The cycle of integrated thinking and reporting, resulting in efficient and productive capital allocation, will act as forces for financial stability and sustainability” (IIRC, 2012a).

## **2.4 The International Integrated Reporting Council (IIRC)**

In 2010, in the wake of the global financial crisis, the IIRC was launched with the support of the Accounting for Sustainability (A4S) initiative led by HRH The Prince of Wales, the Global Reporting Initiative (GRI) and International Federation of Accountants (IFAC). This was formed as the primary global actor to drive and promote the integrated reporting agenda. The council was composed of a powerful international cross-section of world leaders and entities from diverse global disciplines and communities, such as corporate (business and other reporting entities), accounting (accounting forms and professional accounting organisations and institutes), investment (providers of financial capitals) and securities, regulators, policy makers, exchanges, standard setters and reporting framework developers, academia and civil society. The IIRC embodies the shared, common interest of a global coalition of the above parties in the adoption of IR on an international basis as a means to improve communication about value creation, advance the evolution of

corporate reporting and make a lasting contribution to financial stability and sustainable development (IIRC, 2019).

IIRC is now operating in more than 70 countries around the world to exchange best practice (IIRC, 2018b). IIRC has published many reports on various aspects of IR for the benefit of a wide range of users (see Appendix D).

The ‘IR Network’ today operates with over 1,750 participants internationally, with organisations who are at the forefront of this evolution in corporate reporting and have committed to the adoption of IR and have embraced integrated thinking and driving innovation in reporting (IIRC, 2019). This IR Network consists of IR Business Network, IR Investor Network, IR Network for Professional Accountancy Bodies, IR Academic Network, IR Technology Initiative, Public Sector Pioneer Network and Special Interest Group: Integrated Thinking and Strategy.

#### **2.4.1 IR business and investor network**

IIRC has established a global flagship program, the ‘IR Business Network’ with participants internationally from over 2000 companies, as a vehicle for companies that want to improve the quality of their corporate reporting. Here, companies can benefit from the most advanced technical expertise in the world and have peer-to-peer contact with reporting practitioners who have been adopting IR themselves (IIRC, 2019). The IIRC has set up a database containing the leading examples of emerging practice in IR that illustrate how organisations are currently preparing integrated reports, called “The Emerging Integrated Reporting Database”.

The IIRC, in collaboration with the United Nations–supported Principles for Responsible Investment (UNPRI) set up an Investor Network as part of its Pilot Programme (IIRC, 2013). Through the global ‘IR Investor network’ with institutional investors in over 35 countries, IIRC has brought the investors’ perspective on the shortfalls in current corporate reporting into this IR agenda. IIRC (2017b) has stated that progressive investors from countries that are leading practices in corporate reporting have confirmed their investment processes require information on business models, strategy, and better reporting on the key resources of a business, which IR can deliver, and which is important to investors’

understanding of businesses and their allocation of capital. IIRC further stated that investors believed that the management processes reflected in this reporting can drive the development of more sustainable and stable businesses in the longer term.

IIRC has signed memorandums of understanding with a number of partners to set out their shared vision. IIRC has identified the Association of Chartered Certified Accountants (ACCA), Chartered Institute of Management Accountants (CIMA), and IFAC as their breakthrough partners. Also, IIRC is working closely with some other organisations as strategic partners, such as CDP (Carbon Disclosure Project) Worldwide, GRI, and IFRS Foundation. SASB and World Business Council for Sustainable Development (WBCSD) are also partner organisations in IIRC (IIRC, 2019).

#### **2.4.2 IIRC pilot programme**

The IIRC's IR pilot programme was a two-year programme for a selected group of companies who have worked as a network of peer group organisations, exchanging knowledge and sharing experiences (IIRC, 2011b). The pilot programme, comprising over 100 businesses and 25 investors from around the globe (from 26 countries), is designed to test the principles, content, and practical application of IR and develop the International IR Framework (IIRF).

These pilot programme participants have played a major role in the development of the IIRF, which has designed as a practical response to address the key challenges of this evolution in corporate reporting. The Director of Corporate Governance at The Coca-Cola Company has said:

“Being one of the first companies involved in the IIRC Pilot Programme allows us to be at the forefront of establishing a true framework for integrated reporting...This is critical work and our hope is that it will produce the next evolution in corporate transparency and show the benefits business can bring to solving some of the world's toughest challenges” (IIRC, 2011b).

Being the only pilot programme participant from Sri Lanka, the Director of Diesel and Motor Engineering Plc (referred to as “Dimo”), Sri Lanka, has said:

“Pilot Programme discussions on materiality helped us to refine the aspect of materiality from the last year's Integrated Report. Processes to identify stakeholders and manage

stakeholder issues provide a guideline for determining materiality, although we seek further improvements. The programme also led us to describe our ‘state of play’ to provide a holistic picture or status of the organisation” (IIRC, 2012a, p.31)

The IIRC has forwarded a solution proclaiming that companies need to provide a clear link between financial and non-financial disclosures in a way that allows stakeholders to assess the ongoing future performance of the companies by producing a separate report, called an “integrated report”, which results through a process of “integrated reporting”.

Next, this study compares corporate reports and describes how IR is different, highlighting the key features of IR compared with the TCR.

## **2.5 Corporate report comparison**

Table 2.1 and Figure 2.2 give an overview of how IR differs from TCR which includes traditional annual/financial reports and sustainability or corporate social responsibility (CSR) reports. This discussion is based on IIRC (2011, 2013b) and Deloitte (2012).

**The traditional annual/financial report** has been the principal document used by most public companies to disclose corporate information to their providers of financial capital (shareholders, investors, owners). It included a comprehensive overview of a publicly traded company’s business and financial condition with audited financial statements. The focus of these reports was mainly on historical information of the financial results and financial risks during the reporting period. Traditional annual reports were a mandatory legal requirement driven by different laws, listing rules and international standards and principles (e.g. IFRSs, GAAPs), etc., prevailing in different country settings, and were audited to provide reasonable assurance in accordance with International Assurance Standards. As in Deloitte (2012), the typical content of annual reports consists of CEO’s letter to shareholders, narrative content, at-a-glance section, financial data and results of continuing operations, market segment information, product or service information, and R&D activities. In the 1980s and 90s, in response to the need of the reporting of non-financial information, traditional annual reports included management commentaries, governance and remuneration information (e.g. King III) and other CSR disclosure requirements (see Figure 2.2). Over time, that content expanded and evolved into stand-



alone sustainability reports. These sustainability reports were also called CSR reports and corporate citizenship reports or corporate responsibility reports.

**Sustainability reporting (SR)** has encompassed an organisation's economic, environmental and social impacts with an eye toward meeting the needs of the present without compromising the ability of future generations to meet their own needs (The World Commission on Environment & Development in IIRC & EA, 2014). The target stakeholders of SR were, shareholders, investors, owners, and other stakeholders, and stakeholder engagement was the driving force of SR in organisations. In the 2000s, companies have incorporated environmental, social and corporate governance (ESG) performance goals and results into their corporate reporting (IIRC, 2011). In so doing, many followed the GRI framework and included a GRI index, as there was not any legal requirement for SR (GRI, 2013a). GRI has stated that:

“Non-financial reporting, also known as SR, is the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organisational performance towards the goal of sustainable development” (IIRC & EA, 2014).

Despite the voluntary nature of the SR, some companies have obtained assurance on SR through accounting firms and internationally accredited assurance service providers, while some others have adopted the best-practice approach of outside assurance.

Table 2.1: Corporate report comparison

| Criteria                           | Annual reports                 | Sustainability/CSR reports          | Integrated reports   |
|------------------------------------|--------------------------------|-------------------------------------|--|
| <b>Target audience</b>             | Providers of financial capital | Shareholders and other Stakeholders | Providers of capital for organisational value creation process |
| <b>What information</b>            | Financial results              | ESG results                         | Financial, ESG and value creation                              |
| <b>Focus</b>                       | Historical                     | Historical                          | Historical and future oriented                                 |
| <b>Key drivers</b>                 | Regulation                     | Stakeholder engagement              | Stakeholder engagement, strategy, and investor demand          |
| <b>Legal requirement</b>           | Yes/ Mandatory                 | No/Voluntary                        | No/Voluntary   |
| <b>Frameworks, guidelines used</b> |                                | GRI, SDGs                           | International IR framework                                     |

Source: Author constructed based on IIRC (2011, 2013b) and Deloitte (2012)

In a survey of corporate responsibility reporting (CRR), KPMG (2013a) has found that over half (51%) of reporting companies worldwide now include SR information in their annual financial reports compared with only 20% in 2011 and 9% in 2008. The same survey in 2017 found that 93% of the world's largest 250 corporations report on their sustainability performance (KPMG, 2017).

### **2.5.1 SR and GRI**

GRI was established in 1997 to promote SR for public and private organisations. GRI acts as a sustainability reporting framework which help companies navigate their reporting process. In October 2016, the Global Sustainability Standards Board (GSSB), which established as an independent operating entity under the auspices of GRI, developed the GRI standards (GRI, 2019).

GRI standards are the latest evolution of GRI's original SR guidelines (covering G4, G3.1 and G3). The GRI standards are the first and most widely adopted global standards for sustainability reporting. The content has been restructured into a set of modular and interrelated standards. This modular structure means standards can be updated independently, or new ones can be added without revising the whole set. There are three universal standards used by every organisation that makes a sustainability report (GRI 101-Foundation, GRI 102-General disclosures and GRI 103-Management Approach) (GRI, 2019). And there are three series of topic-specific standards which cover economic (GRI 200), environmental (GRI 300) and social impact (GRI 400). The GRI standards represent global best practice for reporting publicly on a range of economic, environmental and social impacts. Sustainability reporting based on the standards provides information about an organisation's positive or negative contributions to sustainable development (GRI, 2019).

### **2.5.2 SR and SDGs**

Similar to GRI, the United Nations Global Compact (UNGC) principles have also been used to report on sustainability information. The UNGC is the world's largest corporate sustainability voluntary initiative based on CEO commitments to implement universal

sustainability principles and to take steps to support UN goals (UNGC, 2019). The UN Secretary-General has stated that:

“The Global Corporate Sustainability Report (GCSR) 2013 reveals that businesses around the world are beginning to take sustainability more seriously. A look at the actions taken by the nearly 8,000 companies from 140 countries participating in the United Nations Global Compact tells a promising story” (IIRC & EA, 2014).

The UNGC is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with 10 universally accepted principles in the areas of human rights (businesses should support and respect the protection of internationally proclaimed human rights, make sure that they are not complicit in human rights abuses), labour (businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining, the elimination of all forms of forced and compulsory labour, the effective abolition of child labour, the elimination of discrimination in respect of employment and occupation), environment (businesses should support a precautionary approach to environmental challenges, undertake initiatives to promote greater environmental responsibility, encourage the development and diffusion of environmentally friendly technologies), and anti-corruption (businesses should work against corruption in all its forms, including extortion and bribery) (UNGC, 2019). By incorporating these 10 principles of the UNGC into strategies, policies, and procedures, and establishing a culture of integrity, companies are not only upholding their basic responsibilities to people and the planet, but also setting the stage for long-term success.

The multi-year strategy of the UNGC is to drive business awareness and action in support of achieving the 17 Sustainable Development Goals (SDGs) by 2030 (UNGC, 2019). In September 2015, all 193 member states of the United Nations adopted a plan for achieving a better future for all by laying out a path over the next 15 years to end extreme poverty, fight inequality and injustice, and protect our planet. These 17 SDGs include 1. no poverty, 2. zero hunger, 3. good health and well-being, 4. quality education, 5. gender equality, 6. clean water and sanitation, 7. affordable and clean energy, 8. decent work and economic growth, 9. industry, innovation and infrastructure, 10. reduced inequalities, 11. sustainable cities and communities, 12. responsible consumption and production, 13. climate action,

14. life below water, 15. life on land, 16. peace and justice, strong institutions, and 17. partnerships for the goals (UNGC, 2019).

### **2.5.3 SR and Assurance**

There are national and international standards and frameworks for assuring non-financial or sustainability disclosures. The two international standards which are mostly referred to by practitioners are ISAE 3000 and AA1000AS (GRI, 2013b).

#### **2.5.3.1 The International Standard on Assurance Engagements (ISAE) 3000**

ISAE 3000 was developed by the IAASB (International Auditing and Assurance Standards Board) and IFAC in 2003 and it was updated in 2013. This is a generic standard for any assurance engagement other than audits or reviews of historic financial information and it emphasises comprehensive procedures for evidence-gathering processes and assurer independence (GRI, 2013b). ISAE 3000 can only be issued by professional accountants, and the assurance provider must also comply with the IESBA Code of Ethics for Professional Accountants (GRI, 2013b).

#### **2.5.3.2 AccountAbility (AA)1000**

AA1000 is a series of standards and principles used by a broad spectrum of global business organisations, private enterprises, governments and civil societies in demonstrating leadership and performance in accountability, responsibility and sustainability (AccountAbility, 2019). These are mainly focused on sustainability challenges (AA1000 Accountability Principles 2018), assurance on sustainability issues (AA1000 Assurance Standard 2008) and integrated stakeholder engagement (AA1000 Stakeholder Engagement Standard 2015). The main emphasis of these standards is on whether the organisation and its SR respond to stakeholder concerns (GRI, 2013b).

### **2.6 How is IR different?**

Researchers have found that a disclosure gap remains because of the extensive, complex disorderly and overlapping set of disconnected information on traditional corporate reporting, and the rise of IR provides solutions to these issues.

IR combines the most material elements of information reported in TCR as separate reporting strands (financial, management commentary, governance and remuneration, and sustainability) in a coherent whole and, importantly, shows the connectivity between them and explains how they affect the ability of an organisation to create and sustain value in the short, medium and long term (IIRC, 2011).

The Chairman of IRC South Africa, and the IIRC Chair Emeritus, Professor Mervyn King has stated:

“Integrated Reporting builds on the practice of financial reporting and ESG or sustainability reporting. It equips companies to manage their operations, brand and reputation strategically and to manage better any risks that may compromise the long-term sustainability of the business” (IIRC & EA, 2014).

Unlike the backward-looking or historical focus in TCR, the focus of IR is on *future oriented or forward-looking information*. IR also addresses the *risk* factor. More importantly, IR focuses on value creation through a lens of six types of capital, by providing a better understanding of where *value* is generated within the business. The target audience for IR is the providers of capital for organisational value creation process. Strong stakeholder relationships, as providers of capital, and investor demand and strategy are the key driving forces of the IR concept. IR is all about understanding and communicating a business’s *strategy* to its stakeholders because IR aligns all internal units around a cohesive strategy. The Communications Director of IIRC has stated that:

“This is key for communicators-IR is all about understanding and communicating the strategy of the business and making sure that all the different elements in the business are connected to that strategy-that the reporting process is cohesive and consistent with that strategy. That is a key differentiator between integration reporting and other forms of reporting” (IIRC & EA, 2014).

**Connectivity** also has been identified as a key feature in IR. Connectivity not only in reporting, but in the management of the business to ensure that various operational units contribute to the integrated report. This connectivity also ensures better risk management and better value creation by unlocking the efficiencies. The Communications Director of IIRC has further stated that:

“In a today’s fast changing environment, where expectation of customers are changing much more rapidly, this concept of being connected to all parts of the business, in

having one cohesive story and understanding of where value is generated actually reduces those risks and enables a business to be far more flexible and responsive to the needs of its stakeholders” (IIRC & EA, 2014).

Integrated reports measure and report on *externalities*, as the business’s impact or role on the environment, society, employees, supply chain, etc., by identifying and reporting whether that business’s impact has created value or depleted value to the external environment and society at large. Thus, IR links with the reputation management of the business. The Communications Director of IIRC has also claimed that:

“The reputation of the business holds a lot of value, and often it’s the strategic communication people who are the guardians of that reputation. If the business is not on top of its impact, other people, NGOs, civil society, will be often in a much more negative way. It’s far better for the business to be ahead of the story and on top of its impact than allow others to do so” (IIRC & EA, 2014).

IR provides a more holistic and balanced view of the business with its long-term focus on value creation. IR sets the business in the context of society and the broader economy, while allowing investors a long-term view of the resilience of the business. The Communications Director of IIRC has identified the *long termism* of IR as:

“How is this business using the resource that are available to it, to protect itself, to enhance value, to manage resources including human resources, intellectual resources, and natural resources, in order to deliver value over the short, medium and long term” (IIRC & EA, 2014).

IR brings a broader perspective of an organisation’s *stewardship on all forms of capital* (not only financial capital, but also manufactured, human, intellectual, social and relationship and natural), their interdependence and how they contribute to an organisation’s value creation (IIRC, 2011). Meanwhile, IR’s quality of information available to providers of financial capital enables a more efficient and productive allocation of capital (IIRC, 2013b).

IR promotes a more *cohesive and efficient approach* to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organisation to create value over time (IIRC, 2013b).

IR emphasises *transparency* and helps to build *trust*, covering a broader range of issues and disclosing the positive with the negative, while TCR was primarily focused on a narrow series of mandatory disclosures (IIRC, 2011).

IR is *adaptive* by being responsive to individual circumstances. The principle-based approach of IR drives the material aspects of organisations, while maintaining a balance between flexibility and compliance (a certain level of compliance ensures consistency and enables comparison) and allowing an organisation to disclose its unique value-creation story in clear and understandable language (IIRC, 2011).

One of the key objectives of IR is to cut the clutter in TCR and disclose what is most material to organisations clearly and *concisely* (IIRC, 2011).

TCR occurs in silos and it encourages thinking in silos. IR, on the other hand, reflects, and supports *integrated thinking*, monitoring, managing and communicating the full complexity of the value-creation process and how this contributes to success over time. IR demonstrates the extent to which integrated thinking is occurring within the organisation and the effective communication of this integrated thinking process through IR can help investors, and other stakeholders, to understand not only an organisation's past and current performance, but also its future resilience. Integrated thinking is discussed in detail in section 2.12.

## **2.7 Who are integrated reports for?**

The primary purpose of an integrated report is to explain to providers of financial capital how an organisation creates value over time, while benefitting all stakeholders interested in an organisation's ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policy makers (IIRC, 2013b). Thus, target stakeholders of IR vary from shareholders, investors, and owners to a wide range of stakeholders.

## **2.8 International IR framework (IIRF/IR framework)**

The IIRC released the IR Framework in December 2013 in order to assist and guide organisations with the process of IR and this framework is used to accelerate the adoption of IR across the world. This framework was released following extensive consultation and testing by businesses and investors in all regions of the world, including the 140 businesses and investors from 26 countries that participated in the IIRC pilot programme (IIRC, 2019). This IR Framework is principles based and does not provide a standard format for integrated reports or specify disclosure requirements. The principle-based nature of the IR framework provides the balance between flexibility and prescription to the adopters of IR, while ensuring a sufficient degree of comparability across organisations (IIRC, 2013b). IIRF does not prescribe specific key performance indicators (KPIs) to the organisations (IIRC, 2013b).

The aims of the IR framework is to improve the quality of information available to providers of capital, to promote a more cohesive approach to corporate reporting, to enhance accountability for the broad base of resources that companies use and affect and to support value creation over time (ACCA, 2016a).

The IR framework outlines the three pillars or three building blocks of IR (see Figure 2.2), namely, three fundamental concepts, seven guiding principles and eight content elements. Through these three building blocks, IIRF sets out the three main requirements of an integrated report.

Thus, the purpose of this IR framework is to establish seven guiding principles that underpin the preparation and presentation of an integrated report, eight content elements that govern the overall content of an integrated report, and to explain the three fundamental concepts that reinforces the IR requirement. The IR framework enables a business to bring these elements together through the concept of 'connectivity of information', to best tell an organisation's value-creation story (IIRC, 2019).



## 2.9 Fundamental concepts

The IIRC framework shows that the fundamental concepts of IR underpin and reinforce the principle base requirements to set out the seven guiding principles and eight content elements for an integrated report. As shown in Figure 2.2, the fundamental concepts comprise the various capitals that an organisation uses and affects, the organisation's business model and the creation of value over time.

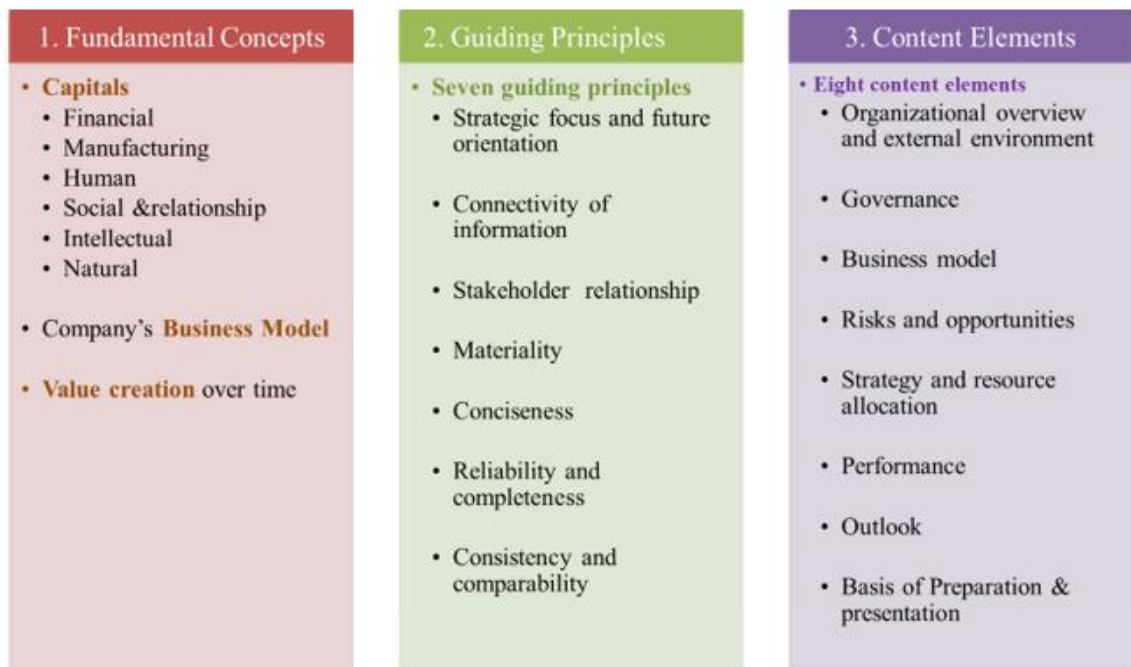


Figure 2.2: Three building blocks of IR (Source: IIRF, 2013b)

### 2.9.1 Six capitals

The IIRC uses the term 'capitals' for the various resources being used by organisations. These capitals are stocks of value that are increased, decreased or transformed through the activities and outputs of the organisation (IIRC, 2013b, section 2.11). As in Figure 2.2, IIRF identifies six capitals: Financial; Manufactured; Intellectual; Human; Social and Relationship; and Natural.

### 2.9.1.1 Capital concept

In IR, the term ‘capital’ has been meant in different perspectives. It has been identified as different resources and relationships (IIRC, 2011, p. 11), as stocks of value of inputs to their business model (IIRC, 2013b), and as an investment in an organisation (Abeyasinghe, 2018).

The multiple capitals categorisation is not new (Doni, Larsen, Martini, & Corvino, 2018). Initial evidence of a multiple capitals’ classification was found in the SIGMA guidelines, as five forms of capital; financial, manufactured, social, human, and natural (The SIGMA Project, 2003). The Forum for the Future (2009) came up with “The Five Capitals Model” (same as in the SIGMA Project, 2003) as a framework for understanding sustainability in terms of the economic concept of wealth creation or ‘capital’. Towards a holistic architecture for corporate disclosure, White (2010) bundled the concept of capitals in integrated reporting into five components, as the INFOS framework, intellectual, natural, financial, organisational and social capital.

Table 2.2: Multi-capitals (six capitals) in IR framework (IIRC, 2013b)

| Type of capital      | Definition  |
|----------------------|---|
| Financial Capital    | The pool of funds. Such as debt, equity finance, grants, or generated through operations or investments   |
| Manufactured Capital | Manufactured physical objects that are available to an organisation for use in the production of goods or the provision of services, including buildings, equipment and infrastructure etc.   |
| Intellectual Capital | Organisational, knowledge-based intangibles, including intellectual property (such as patents, copyrights, software, rights and licenses etc.) and organisational capital (such as tacit knowledge, systems, procedures and protocols etc.) |
| Human Capital        | Peoples competencies, capabilities and experience, and their motivations to innovate  |

|                                 |  |
|---------------------------------|--|
| Social and Relationship Capital | Relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being (such as shared norms, values, key stakeholder relationships, brand and company reputation, social license etc.) |
| Natural Capital                 | Renewable and non-renewable environmental resources and processes (such as air, water, land, minerals, forests, biodiversity and eco-system health etc.)   |

According to IIRC (2011), the success of organisations depends on the availability of a variety of resources and the strength of the relationships that support the long-term viability of those organisations, and thus these resources and relationships have been conceived as different forms of capitals. The capitals are stocks of value that are increased, decreased or transformed through the activities and outputs of the organisation, and the IR framework identifies six capitals: financial; manufactured; intellectual; human; social and relationship; and natural (IIRC, 2013b, section 2.10 and 2.11), and also states that an integrated report displays an organisation's stewardship not only of financial capital, but also of the other capitals. The IR framework requires that an integrated report should comprise details of the company's business model and how it integrates with the six capitals and the company's underlying strategies to recognise how each capital is used, consumed, or transformed by the company in their value creation in the short, medium and long term. Table 2.2 defines each of the six capitals considered by IIRC.

### **2.9.1.2 Application of six capitals in IR literature**

Adams (2013) provided the initial evidence on what IR and the six capitals mean to business organisations. That author, being a member of the IIRC project team/technical collaboration group (comprising practitioners, academics and IIRC staff), has asserted that robust discussions were held within the group about the boundaries between the various capitals (e.g. overlaps between social and relationship capital, human capital and intellectual capital) and consensus was reached informed by research.

The Capitals Background Paper for IR (IIRC, 2013f) which was released prior to the IR framework in December 2013 stated how IIRC have decided on the multi-capitals concept.

This background paper was supported in responses to the IR Discussion Paper (IIRC, 2011). Explicit recognition was embedded in the Capitals Background paper that some impacts on the capitals can only be reported on in narrative terms, while bringing to the fore the recognition that organisations depend on *all* the capitals, not just financial capital, for their success (Adams, 2013; EY, 2013; IIRC, 2013f).

Supporting this view, Flower (2015) claimed that, through their integrated reports, it is essential for the firms to report on *all* the capitals affected by their activities, in order to report sustainability. However, Flower (2015) argued that the IIRC's concept of different capitals would certainly facilitate the reporting of the firm's impact on society and the environment, and hence on sustainability. In contrast, Adams (2015) argued that the focus of integrated reporting is to consider how an organisation creates value rather than on measuring impacts, and the capitals are intended to broaden the thinking about the value creation processes and risks. The two interrelated aspects of value: value creation for the organisation itself and for others (stakeholders and society) is expressed in terms of the increases, decreases or transformations of the capitals, caused by the business activities, relationships, interactions and outputs (IIRC, 2013a, p.10). As the IR framework identified, the primary reason for including the capitals in this framework are to provide part of the theoretical underpinning for the concept of value creation and also as a guideline for ensuring organisations to consider all the forms of capital they use or affect. Reporting of these multi-capitals in an integrated report provides a broad perspective and makes visible how an organisation uses and depends on capitals, and the organisation's access to and impact on them (IIRC, 2011). Such reporting of multi-capitals derives benefits for organisations, providing a meaningful assessment of the long-term viability of the organisation's business model and strategy, meeting the information needs of investors and other stakeholders, and as aid in effective allocation of scarce resources (IIRC, 2011).

Adams (2015a) described three frameworks: the intangible (IC) framework, the sustainability framework and the integrated framework, proposing a categorisation of capitals that takes a holistic approach to measuring and managing the value creation processes. The intangible (IC) framework includes intellectual, human, and social and relationship capital, while the sustainability framework consists of human, social and

relationship, natural and strategic (purpose, business model, culture, governance) capital. Adams (2015a) claimed that study was the first attempt to identify, evaluate and disclose intangible and sustainability issues alongside tangible and financial resources.

There are a few empirical researches which have been based on exploring how multi-capitals have been reported in different organisations and studies which have highlighted issues with the reporting of some forms of capital. For example, Wild and van Staden (2013) found early evidence that most of their study's IR pilot companies disclosed on four forms of capital as: financial, human, natural, and social. Similar results were obtained by IIRC (2015f) in a survey of the pilot companies' capital disclosure practices. IIRC (2015f) found very limited disclosure of multiple capitals and the majority of the South African companies focused only on financial capital, without any reference to the other forms of capital. It was also identified a lack of information about the interrelationship between the capitals in creating value for the companies and also found that these interdependencies and trade-offs tended to be generic, rather than company-specific (IIRC, 2013f; Doni et al., 2018). After the introduction of mandatory IR for the Johannesburg Securities Exchange (JSE) listed companies in South Africa, Setia et al. (2015) found growing disclosure of four forms of capital (human, social and relational, natural and intellectual) in the top 25 JSE listed companies in South Africa. Haji and Hossain (2016) examined how the adoption of IR and the embedded capitals framework has influenced organisational reporting practices based on a case study of five award-winning IR reporters in South Africa over a period of four years (2011–2014). In a recent study, Doni et al. (2018) investigated the engagement with IR of one of the banks in Singapore that pioneered IR and examined an innovative approach to accounting for multiple capitals adopted by the selected bank during its journey toward IR. They found that the selected bank re-conceptualises, re-categorises, and measures multiple capitals as a form of non-financial value using the balance sheet approach to make visible the interactions and potential tensions (trade-offs) among capitals.

#### **2.9.1.3 Capital stewardship**

The IR concept is built on the concept of 'capital stewardship', which is defined as the preservation and enlargement of multiple forms of capital, all of which contribute to long-

term value creation by the firm (White, 2010). White (2010) further identified that, with the language of capitals, the broader range of stakeholders who are served by credible, comprehensive, and timely disclosures, get captured and rooted in this shared conceptual foundation of ‘capital stewardship’. Based on this argument, the present study has developed a theoretical model/framework proposing a stakeholder approach to manage company’s multi-capitals using stakeholder theory (in section 4.3.2.1 in Chapter 4). With the proposed theoretical framework, the present study suggests that organisations should embrace a stakeholder approach on capital management activities in their journey towards integrated thinking, which in turn would inculcate a culture where every stakeholder is contributing to and benefitting from the organisational value creation process.

Because of the broader perspective required by IR, both in terms of the resources and relationships that it takes into account and risks and opportunities along the longer timeframe over which value creation is considered, it leaves organisations better placed to act, and be more accountable, as stewards of the community’s common resources, in particular human, natural and social capital (IIRC, 2011). An integrated report displays an organisation’s stewardship not only of financial capital, but also of the other capitals, such as manufactured, human, intellectual, natural, and social and relationship, and their interdependence and how they contribute to success. Stewardship over a company’s resources is necessary for increasing trust (Dumay, La Torre & Farneti, 2019).

However, in order to promote reporting of accountability and stewardship for the broad base of capitals and promote understanding of their interdependencies, the IR framework (2013b) encourages IR adopters to disclose interdependencies and trade-offs among the capitals in communicating organisational value creation over the short, medium and long term. With the five capitals model in sustainability framework, The Forum for the Future (2009) also have identified that an organisation needs to consider the impact of its activities on each of the capitals in an integrated way in order to manage ‘trade-offs’.

The IR framework propounds that accountability is closely associated with the concept of stewardship and the responsibility of an organisation to care for, or use responsibly, the capitals that its activities and outputs affect (IIRC, 2013b, p.18, section 3.15). According to the IR framework, a stewardship responsibility is imposed on the entity via legal

responsibilities when the capitals are owned by the entity and stewardship responsibilities may be imposed by law or regulation when the capitals are owned by others or not owned at all. When there is no legal stewardship responsibility, the entity may have an ethical responsibility to accept, or choose to accept, and be guided in doing so by stakeholder expectations (IIRC, 2013b, p.18, section 3.15-3.16). Dumay et al. (2019) have used stewardship theory as a basis for corporate behaviour and disclosure which can help improve accountability and foster stewardship.

#### **2.9.1.4 Capitals and integrated thinking**

To ascertain this accountability and stewardship of multi-capitals approach, IR requires a fundamentally different way of thinking about what makes an organisation successful and its reliance on a much broader set of capitals than financial capital (Adams, 2013). Thus, IR requires a different way of thinking at the strategic level and board level, rather than in silos, which would then be disseminated all throughout and across the organisational hierarchy and processes, having rooted in corporate culture and values. The South African Institute of Chartered Accountants (SAICA) (2015) claimed that integrated thinking is the ‘elimination of silo thinking’ which exists to varying degrees in many organisations and is a culture or attitude that should begin at board level and determine the board’s agenda and method of operating and needs to cascade down and become part of the DNA of the whole organisation, extending through the whole value chain (SAICA, 2015, p. 10). It has also been asserted that as a key driver of sustainable value, integrated thinking must be led by, and have active involvement from, the board and senior leadership and if directors get it right, the culture of the organisation will live the values, focus on delivery against the strategy whilst managing their resources and relationships over the long term (IOD NZ, 2018).

IR reflects and supports, integrated thinking of monitoring, managing and communicating the full complexity of the value creation process and how this contributes to success over time (IIRC, 2011). Thus, IR emphasised the importance of integrated thinking on the broader set of capitals or the multi-capitals in the long-term value creation process of organisations. In academic research, the IR agenda, and the embedded integrated thinking, is recognised as a wider organisational reporting philosophy which is supposed to bring a

‘shift’ in the traditional silo reporting and integrate various organisational reporting platforms (Haji & Hossain, 2016; Rowbottom & Locke, 2016). In corroboration of this different way of thinking, Adams (2013) has also called for organisations to consider the availability of capitals in the context of overall strategy and governance; report on how the organisation’s culture and ethical values impact on its relationship with the capitals; report how the organisation’s use and effects on capitals are incorporated into performance-based compensation; set up risk management arrangements in relation to all of the capitals; and understand the implications of the availability, quality and affordability of the capitals to the organisation’s future success.

### 2.9.1.5 Capital management

This section has been excerpted from one of the IR role models in Sri Lanka, as well an IR initiator in South Asian region, the Diesel and Motor Engineering Plc (Dimo). They have conceptualised capitals management as shown in the Figure 2.3.

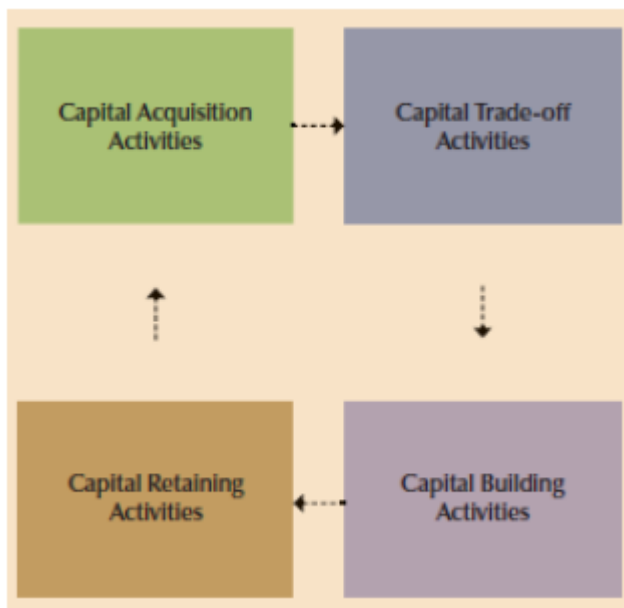


Figure 2.3: Management of capitals (Source: Dimo annual report, 2018, p.61)

In **capital acquisition**, the concerns of accountability along with the ownership of capital have to be considered. When the capitals are owned by the organisation, a stewardship responsibility is imposed on the board and management via legal responsibilities to the



organisation and when the capitals are owned by others or not owned at all, a stewardship responsibility may be imposed by law or regulation (for example, through labour laws, environment protection regulations, contract with owners) (IIRC, 2013b, p. 18). In spite of no legal stewardship responsibility, the organisation may have an ethical responsibility to accept, or choose to accept stewardship responsibilities guided by diverse stakeholder expectations (IIRC, 2013b, p. 18).

In this view, the present study shares the view of Abeysinghe (2018), who perceived integrated thinking as the cornerstone of the relationship between organisational operations, capitals and organisational stakeholders who have financial as well as non-financial investments of capitals in the firm. Furthermore, he also drew upon that active consideration by an organisation to maintain a balance between financial and non-financial focus in business operations to make sure of the continued availability of these capitals for further use by the organisation. Deegan (2014) indicated that the future of IR provides much hope in terms of extending the accountability of organisations with respect to the various non-financial aspects of their operations. Thus, sustainability also requires an organisation to have a balance between financial and non-financial focus in their business operations. Out of the six forms of capital recognised in the IR framework, the first two capitals, namely, financial capital and manufactured capital, maintain a financial focus in business operations, while the focus of the latter four capitals, namely, human capital, intellectual capital, social and relationship capital and natural capital, is on the non-financial. Similar thoughts have been shared by Abeysinghe (2018), stating that for sustainable growth, a business enterprise needs to maintain a balance between relationships with the former two capitals and the latter four capitals. However, he further argued that the financial focus of business enterprise through the first two capitals can affect the relationship with the other four capitals, which he claimed as investments by outsiders.

The suggested stakeholder approach on capital management can be supportive to excel at these stakeholder relationships between capitals. Therefore, adopting a similar approach to Abeysinghe (2018), the six different capitals can be further classified under two major notions in understanding ownership or flows of ownership of each capital from the perspectives of the stakeholders: investment by shareholders, owners and investors to

address the financial focus of value creation through financial capital and manufactured capital and, investment by outsiders to address the non-financial focus of the organisational value creation through the human, intellectual, social and relationship and natural capitals.

The connectivity of information principle in IR identifies that one of the key forms of connectivity of information (IIRC, 2013b, Section 3.8) includes connectivity between capitals which recognises the *interdependencies and trade-offs between the capitals*, and how changes in their availability, quality and affordability affect the ability of the organisation to create value (IIRC, 2013b, p.17) in the short, medium and long term. Doni et al. (2018) stated that all transformations of capitals may involve some form or forms of trade-off and only a few organisations fully and thoughtfully disclose the influence of trade-offs on the value creation process or the trade-offs between capitals and components of capitals. Interdependencies and trade-offs of capital include trade-offs between capitals or components of a capital, trade-offs over time or trade-offs between capitals owned by the organisation and those owned by others or not at all (IIRC, 2013b, p.31, section 4.56). In reporting on the critical capital interdependencies and the capital trade-offs, the international IR framework does not require an integrated report to provide an exhaustive account of all the complex interdependencies between the capitals such that an organisation's net impact on the global stock of capitals could be tallied (IIRC, 2013b, p.31, section 4.56).

This capital trade-off concept would address some of the critical aspects claimed by IR researchers. According to Flower (2015), the fundamental point was that IIRC accepts that the integrated report should cover the impact of the capitals on the firm, but ignores the firm's impact on these capitals, except to the extent that this impact rebounds on the firm. He further claimed that IIRC requires a firm to report on the effect of its activities on stakeholders, on society and on the environment only to the extent that there is a material impact on its own operations. Adams (2015) brought a counter-argument that integrated reporting is focused on organisational value creation through a multiple capitals model rather than on measuring impacts, and furthermore, Adams (2015) shared Flower's (2015) disappointment with the limited disclosure requirements concerning movements of the capitals in the IR framework. In order to overcome this issue from the point of view of

integrated thinking, the stakeholder perspective can be used to address the increase, decrease and transformation of each capital and four capital management activities along with the stakeholder impact on these capitals that would address the internal, external, positive and negative consequences (IIRC, 2013b) for these capitals.

Value creation results in the increase, decrease or transformation of the capitals and net increase or decrease to the overall stock of capital would result in a value accretion or a value reduction (IIRC, 2013b). This net effect depends on the organisation's stakeholder relationships. Identifying the stakeholders' legitimate needs and materialising how and when the organisation would respond to and achieve those needs is vital in value creation through stakeholder relationships. Prioritising the diverse stakeholder needs and issues is equally important in capital management activities. This may lead to the increase, decrease and transformation of capitals to become complex and involve a broader mix of capitals or of components within a capital (IIRC, 2013b). This stakeholder approach in this journey of integrated thinking is essential to obtain insights about material issues (financial and non-financial), including risks and opportunities, implement and evaluate organisational strategies to address these material matters, be responsive to stakeholders' legitimate needs, interests and be accountable to stakeholders' material matters. IIRC (2013b) highlights the importance of the cyclical relationship between integrated thinking and integrated reporting, as an integrated report enhances transparency and accountability while building trust and resilience with organisational stakeholders on the value creation via multi-capital approach. This provides the basis for *capital building activities and capital retaining activities* as well. Substantially, a well-managed key stakeholder relationship is considered a key determinant in securing the capitals for an organisation.

In capital building and capital retaining activities, the methods the organisation uses to identify issues of each material stakeholder and the frequency of those engagements are essential in assessing the quality of the stakeholder relationship, which leads to establishing a long-term stakeholder focus on managing multiple capitals. Such assessment emphasises the relationship that the organisation maintains with its stakeholders as being strong and mutually beneficial and which needs more improvement through more engagement. This strength of the stakeholder relationship would also contribute to managing the multiple

capitals efficiently and productively in a way that it drives continuous delivery of stakeholder value.

After the detailed discussion of ‘capitals’ as the second fundamental concept in IIRF, the next section discusses the third fundamental concept (see Figure 2.2): the business model/value creation model.

### **2.9.2 Business model (BM) or Value creation model (VCM)**

As depicted in Figure 2.4, IIRC identifies the BM as the value creation process or the vehicle through which it creates value. That value is embodied in the capitals that it uses and affects. The IR framework requires that an integrated report should comprise details of the company’s BM and how it integrates with the six capitals and the company’s underlying strategies to recognise how the capitals are used, consumed, or transformed by the company in producing their output, and whether or not they created or depleted value to the organisation.

The complete picture of an organisation’s value creation process shows the interaction of the content elements and the capitals in the context of the organisation’s external environment (IIRC, 2013b).

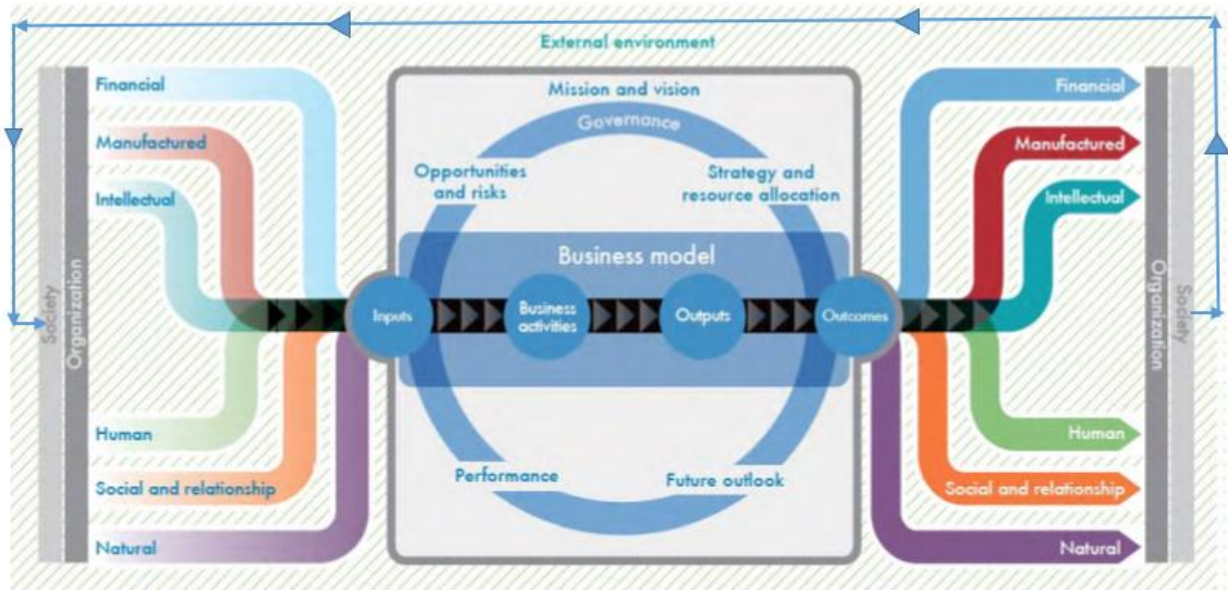


Figure 2.4: Value creation process (Source: IIRC, 2013b)

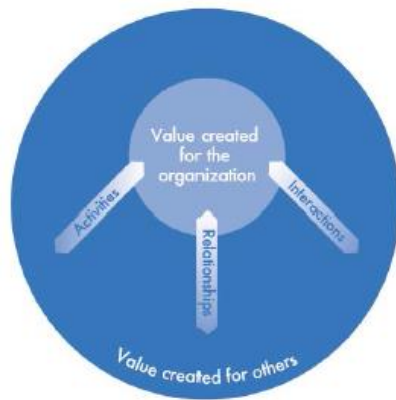
As in IIRC (2013b), BM draws on various capitals as inputs and, through its business activities, converts them to outputs (products, services, by-products and waste). The organisation's activities and its outputs lead to outcomes (internal, external, positive and negative) in terms of effects on the capitals. The organisation's mission and vision encompass the governance, strategy, performance and prospects and risks and opportunities in an organisation. The external environment sets the context within which the organisation operates. As such, the business model sets out strategic objectives and strategies to achieve the organisation value, which are implemented through resource allocation plans in a manner that considers both the maximisation of opportunities and the mitigation or management of risks relevant to the company (Cheng et al., 2014).

### 2.9.3 Value creation (VC)

According to the IIRF, value creation is the increases, decreases or transformations of the capitals caused by the organisation's business activities and outputs (IIRC, 2013b, section 2.4). The assessment of an organisation's ability to create value in the short, medium and long term depends on an understanding of the connectivity between its business model and a wide range of internal and external factors (IIRC, 2013). Value drivers (in other terms, the capabilities or variables that give an organisation competitive advantage and over

which it has some degree of control) affect an organisation's ability to create value over time (IIRC, 2013).

This VC has two interrelated aspects: value creation for the organisation itself and value creation for the others (i.e. stakeholders and society at large). The organisation's ability to create value for itself and for others happens through a wide range of material activities, interactions and relationships (IIRC, 2013b, p.1, section 2.6 & 2.7). See Figure 2.5.



*Figure 2.5: Value created for the organisation and for others (Source: IIRC, 2013b)*

In the context of 'value to whom'/'whose values' (Freeman, 1984), IIRC's conceptualisation of integrated reporting is different from the interest originated for sustainability reporting. Dumay et al. (2016) pointed out that researchers, such as Flower (2015) and Milne and Gray (2013), have argued that the primary focus of the integrated reporting has deviated from a sustainability focus of 'value to present and future generations society and environment' to 'value to investors'. Flower (2015) came up with alternative interpretations when attributing meaning to the terms 'value' and 'value to whom'. Being consistent with the stakeholder theory, Flower (2015) used 'value to stakeholders', and at the same time, value is interpreted as 'value to society', which is consistent with social and environmental accounting and 'value to present and future generations', which is consistent with sustainability.

In order to void the inconsistency between the founding interests of integrated reporting and sustainability reporting, IIRC emphasised the importance of integrated thinking. Integrated thinking is needed to maintain a balance between 'value to investors' with profit maximisation and 'value to other stakeholders' with the social and environmental sustainability in an organisation (Abeyasinghe, 2018).

Flower (2015) forwarded a counter-argument that the term ‘providers of financial capital’ in paragraph 1.7 (IIRC, 2013b, p. 7) emphasises that the IIRC’s focus is ‘value for investors’ and not ‘value for society’. Flower (2015) further argued that there is no obligation on firms to report harm inflicted on entities outside the firm (such as the environment) where there is no subsequent impact on the firm. As noted by Adams (2015) in response to Flower’s (2015) paper, businesses embrace the notion of ‘value for society’ as being aligned to ‘value for investors’ and that it depends on the extent to which business, society, and the environment co-exist in a mutually beneficial way. This stands in sharp affirmation with the primary purpose of an integrated report (IIRC, 2013b), which is to explain to providers of financial capital how an organisation creates value over time, while benefiting all stakeholders interested in an organisation’s ability to create value and show accountability toward all stakeholders. Adams (2015) further claimed that the international IR framework shows the link between value for investors and value for society in paragraphs 2.4 to 2.7 (IIRC, 2013b, p.10).

In fact, according to stakeholder theory, an organisation should create value for all stakeholders, in contrast to the traditional financial model based on creating value for the principal agent or shareholder (Garcia-Sanchez, Rodriguez-Ariza, & Frias-Aceituno, 2013; Silvestri, Veltri, Venturelli, & Petruzzelli, 2017). As the basic proposition of the stakeholder theory, the firm’s survival depends on its successful management of relationships with stakeholders, and stakeholders need to be informed of the economic, social and environmental impact of corporate performance (Silvestri et al., 2017).

The above arguments stand in sharp resemblance to the value creation concept underpinned in the IR framework (2013b, p.11). The two interrelated aspects of value, namely value created for the organisation itself and value created for others (stakeholders and society at large), are linked through a wide range of material interactions, activities and relationships. Furthermore, the stakeholder relationship is one of the guiding principles of IR, which underlines the relevance of the relationship between organisation and stakeholders, as value is not created by the organisation alone but through relationships with others (Silvestri et al., 2017). Through the guiding principle of the stakeholder relationship, IR requires organisations to disclose the rationale or method of identifying their stakeholders,

how stakeholder insights are used to develop strategy and evaluate strategies, critical stakeholder dependencies, material matters and the steps taken to mitigate such risks, how key stakeholders' legitimate needs and interests are understood, taken into account and responded to, engagement with stakeholders and defines the communication channels with stakeholders, the stewardship and the ethical responsibility towards the capitals (IIRC, 2013b).

## 2.10 Guiding principles (GPs)

The seven guiding principles are depicted in Figure 2.2 and Figure 2.6 and explained in Table 2.3.



Figure 2.6: Guiding principles and content elements of IR framework (Source: 4C Group, 2019)

These GPs are applied individually and collectively for the purpose of preparing and presenting an integrated report (IIRC, 2013b, section 3.2). Accordingly, IIRF stated that judgement is needed in applying these GPs to determine what information is reported, as well as how it is reported (IIRC, 2013b, section 3.2 & 4.3).



Table 2.3: Guiding principles of IIRF based on IIRC (2013b)

| Guiding Principles                     | Description   |
|--|---|
| Strategic focus and future orientation | Insight into the organisation's strategy, and how it relates to the organisation's ability to create value in the short, medium and long term, and to its use of and effects on the capitals  |
| Connectivity of information            | A holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organisation's ability to create value over time   |
| Stakeholder relationship               | Insight into the nature and quality of the organisation's relationships with its key stakeholders, including how and to what extent the organisation understands, takes into account and responds to their legitimate needs and interests |
| Materiality                            | Disclose information about matters that substantively affect the organisation's ability to create value over the short, medium and long term  |
| Conciseness                            | Should be concise   |
| Reliability and completeness           | Include all material matters, both positive and negative, in a balanced way and without material error  |
| Consistency and comparability          | Presented: (a) on a basis that is consistent over time; and (b) in a way that enables comparison with other organisations to the extent it is material to the organisation's own ability to create value over time.                       |

These GPs underpin the preparation and presentation of an integrated report, informing the content of the report and how information is presented in an integrated report.

## 2.11 Content elements (CEs)

The eight CEs are depicted in Figure 2.2 and Figure 2.6 and explained in Table 2.4.

As the IIRF identifies, the CEs are fundamentally linked to each other and are not mutually exclusive and the content of an organisation's integrated report will depend on the individual circumstances of the organisation. The CEs are therefore stated in the form of questions and an integrated report should answer the questions posed by each of them (IIRC, 2013, section 4.2 & 4.3).

Table 2.4: Content elements of IIRF based on IIRC (2013b)

| Content Elements                                 | Description  |
|--|--|
| Organisational overview and external environment | What does the organisation do and what are the circumstances under which it operates?  |
| Governance                                       | How does the organisation's governance structure support its ability to create value in the short, medium and long term?   |
| Business model                                   | What is the organisation's business model?   |
| Risks and opportunities                          | What are the specific risks and opportunities that affect the organisation's ability to create value over the short, medium and long term, and how is the organisation dealing with them?  |
| Strategy and resource allocation                 | Where does the organisation want to go and how does it intend to get there?  |
| Performance                                      | To what extent has the organisation achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?  |
| Outlook  | What challenges and uncertainties is the organisation likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance? |
| Basis of preparation and presentation            | How does the organisation determine what matters to include in the integrated report and how are such matters quantified or evaluated?   |

These CEs govern the overall content of an integrated report, helping organisations determine how best to express their unique value creation story in a meaningful and transparent way (IIRC, 2013). In turn, the GPs and CEs relate to the six capitals that the organisation uses to create value, allowing managers to provide a narrative that explains how the firm creates value in an integrated report.

Hence, IR adopts and attempts to mediate among the different interested parties (stakeholders) and capitals (resources) employed to achieve the business objectives, adopting a holistic and innovative approach to corporate reporting which goes beyond identifying, representing and communicating the way in which companies create value (Busco, Frigo, Quattrone, & Riccaboni, 2013a).

Given one of the research questions of the present study, explanation and application of these GPs and CEs in the selected sample is discussed in detail in Chapter 10.

## **2.12 Integrated thinking**

As pointed out by Abeysinghe (2018), the concept of ‘integrative thinking’ was first introduced by Martin and Austen (1999) as part of a decision-making model seeking to enable managers to solve the tension between two conflicting choices, namely, profit maximisation and social and environmental sustainability. As he further stated, the Prince’s Accounting for Sustainability Project (Prince’s A4S), which is one of the sustainability reporting institutions who were involved in the IIRC formulation in 2010, has also sought to urge decision-making of business organisations to maintain a balance between a financial focus and a focus on environmental sustainability.

In the IR framework, integrated thinking is defined as the active consideration by an organisation of the relationships between its various operating and functional units and the capitals that the organisation uses or affects, thus leading to integrated decision-making and actions that consider the creation of value over the short, medium and long term (IIRC, 2013b, p.34). In a similar tone, SAICA (2015) asserted that it is obvious that organisations cannot prepare a credible integrated report unless the conditions and processes that prevail within the organisation are conducive to their reporting, and thus conditions are described as integrated thinking. The term “integrated thinking” takes into account the connectivity between organisational value creation through its activities, relationships, interactions and capitals, and the interdependencies between the range of factors that affect an organisation’s ability to create value over time, including the capitals that the organisation uses or affects, and the critical interdependencies, trade-offs between capitals, the capacity of the organisation to respond to key stakeholders’ legitimate needs and interests, how the organisation tailors its business model and strategy to respond to its external environment and the risks and opportunities it faces and the organisation’s activities, performance (financial and other) and outcomes in terms of the past, present and future capitals (IIRC, 2013b, p. 2). Hence, in integrated thinking more connectivity of information would flow

into management reporting, analysis and decision-making, and subsequently into the integrated report (IIRC, 2013b).

Having proclaimed that effective IR is dependent upon an organisation's ability to successfully implement integrated thinking, SAICA (2015) emphasised the need for further clarity in the meaning especially of integrated thinking, since the IR framework is silent on the details of how integrated thinking can be achieved (SAICA, 2015, p.2). Confirming the same, a few academic scholars have claimed that the difficulty of interpreting and applying a principles-based reporting framework in a relatively limited amount of time adds to the challenge of preparing a high-quality integrated report and is unlikely to promote a more proactive approach to sustainability performance management and the integrated thinking necessary for high-quality integrated reporting (McNally, Cerbone, & Maroun, 2017). However, IOD NZ (2018) claimed that integrated thinking does not need to result in a particular reporting framework. Notwithstanding the above, they have added stating that:

Integrated thinking involves much more than changing the way organisations report. It is a change process that compels organisations to focus on how they create value over time. Integrated thinking results in better articulation of strategy organisation-wide, where everyone from the board to employees on the floor understands where the organisation is going and what it is trying to do, and where all can make a contribution (IOD NZ, 2018, p.1).

Thus, it has been stressed that effective integrated reporting should result in a holistic approach to long-term sustainable value creation in businesses, and it is done through integrated thinking (IIRC, 2013b). In the presence of integrated thinking, organisations have a firm-wide governance structure which recognises sustainability as a strategic issue (IOD SA, 2016), clear understanding of sustainability performance at the strategic and operational level, stakeholder engagement which allow an organisation to identify sustainability performance targets, develop and implement sustainability plans, management control and accounting systems to support sustainability performance objectives, and monitor and track progress and produce data for internal decision-making and reporting to external stakeholders (McNally et al., 2017). Integrated thinking considers the organisational activities and impacts more broadly, holistically along with a sustainable long-term focus, thus enabling boards to make better informed decisions and manage key risks more effectively by better identifying resources and relationships essential to the

organisation and its ability to create value, more effectively allocating resources to align with long term goals, identifying the risks and opportunities that could detract from a sustainable business model, aligning reporting to business models and communicating and engaging with shareholders and stakeholders (IOD NZ, 2018).

In an attempt to make integrated thinking concrete and usable, the NIBR (Italian Network for Business Reporting) has developed a simplified, clear and brief handbook, titled “IR: Focus on integrated thinking-a handbook for the change journey”, suggesting a five-step model of change towards implementing integrated thinking (NIBR, 2016). The five stages of the change journey involve identifying relevant issues and stakeholders for the journey of IR, identifying and engaging leaders of the journey, identifying KPIs and the change dashboard of the journey, designing and implementing the change action plan for the journey, and finally, setting up an integrated report on all forms of value creation. The IIRC acknowledged that these stages are strongly linked and dynamically complementary and related to integrated thinking and these four are influenced by and influence the fifth step, that of the integrated report. Likewise, based on the empirical evidence gathered from case studies, as well as from conversations with pioneers, the CIMA’s global academic research programme identified 10 recommendations to management accountants and to other organisation leaders who intend to design and manage effective processes of integrated thinking (AICPA, 2017a). This has been shared in the IOD NZ (2018) as well. Among the 10 recommendations for achieving integrated thinking, the emphasis on stakeholder engagement and the capitals has been highlighted as focus on the purpose of the business and on the multiple objectives to be achieved, considering the various stakeholders that engage within the value chain, identify the resources, the activities, the drivers, and the stakeholders that are involved in the development and execution of the business model and recognise the trade-offs, interests and risks that characterize the value creation process, especially across and within the capitals (AICPA, 2017a).

However, Abeyasinghe (2018) claimed that the NIBR model attempts to identify the main considerations and requirements needed to be considered in implementing a change programme for integrated thinking rather than how integrated thinking could be brought into the decision process of a firm. He further stated that the NIBR model used the existing

integrated thinking initiative by IIRC as the reference without adequate concern for stakeholders other than finance providers, and thus used integrated thinking with a managerial focus. On this term, Abeysinghe (2018) affirmed the Flower (2015)'s argument that the concepts of IR and integrated thinking both carry a managerial focus rather than a wider stakeholder focus. However, Abeysinghe (2018) asserted that the NIBR model does not emphasise the IIRC's requirement to consider and address the legitimate needs of the stakeholders other than finance providers. On this condition, Abeysinghe (2018) supports the fact that IIRC's emphasis is on stakeholders other than finance providers. Thus, the more integrated thinking is embedded in an organisation, the more likely it is that a fuller consideration of key stakeholders' legitimate needs and interests are incorporated as an ordinary part of conducting business (IIRC, 2013b, p. 18).

### **2.12.1 Cyclical process of IR and Integrated thinking**

IIRC (2016c) perceived reporting and thinking as two sides of the same coin, where both are necessary to enhance connectivity in the organisation and communication on value creation.

In particular, the focus on the ability of an organisation to create value in the short, medium and long term emphasises the importance of integrated thinking within the organisation. On the other hand, IIRC (2013b) further claims that IR is delivered by the process of integrated thinking that results in a periodic integrated report by an organisation about value creation over time and related communications regarding aspects of value creation (IIRC, 2013b). The cycle of integrated thinking and reporting, resulting in efficient and productive capital allocation, will act as a force for financial stability and sustainability (IIRC, 2013b, p.2) while ensuring the value creation for the organisation itself and for others (stakeholders). Integrated thinking, being an integral part of IR, the IIRC states that some organisations may start with integrated thinking as the pillar of integrated reporting (IFAC, 2015) and drive towards integrated reporting and some others may adopt IR to drive strategic alignment and corporate reporting and integrated thinking, confirming a cyclical relationship between the two (IIRC, 2016c). Thus, this confirms the view that integrated

thinking is critical to developing an integrated report and that IR is how organisations communicate integrated thinking (IOD NZ, 2018).

### **2.13 Benefits of IR adoption**

Research has shown that reporting influences corporate behaviour.

“Integrated Reporting and transparency is not only the right thing to do, but it has brought with it a broad range of business benefits, ranging from richer access to capital markets and identification of cost savings to an increase in employee engagement.”  
(Chairman of Aviva, IIRC, 2011).

The Discussion paper of IIRC outlined that information reported through IR is critical to; a meaningful assessment of the long-term viability of the organisation’s business model and strategy; meet the information needs of investors and other stakeholders, and ultimately, the effective allocation of scarce resources (IIRC, 2011). In addition, it also summarised the main benefits and challenges with respect to IR for reporting organisations, investors, policymakers, regulators and standard setters, and other stakeholders.

Similarly, a study conducted by ACCA in October 2016, interviewing the ‘IR Business Network’ participants, showed the following benefits from adopting IR. These include more integrated thinking and management, greater clarity on business issues and performance, improved corporate reputation and stakeholder relationships, more efficient reporting, employee engagement, and improved gross margins (ACCA, 2017a).

ACCA conducted the same study in 2017 interviewing 20 respondents from 11 countries in ‘IR Business Network’ (ACCA, 2018a). Although this ACCA (2018a) report focused on IR practice, it also highlighted that many IR Business Network participants have experienced wider business benefits through adopting or progressing towards the adoption of IR. The most widely-reported benefits were internal, where they found that 95% of participants said that they have a better understanding of how their organisation creates value as a result of embarking on their IR journey and 70% have seen more connections between different departments, leading to a broadening of perspectives. ACCA (2018a) revealed that there were also strong external benefits, especially in terms of improved engagement with investors and other stakeholders and the forward thinking within the

organisation has become a means of building trust in the organisation's management and prospects. Finally, it also stressed the point that integrated thinking is crucial to reaping the full benefits of IR.

## **2.14 Challenges for IR**

The following provides some detailed evidence, particularly through some professional reports which addressed the topic of the challenges of IR.

ACCA (2016a) provided what prevents companies from adoption of IR. They found that though some companies prepare integrated reports because of the demand from their investors and other stakeholders, the legal liability concerns, particularly over the forward-looking disclosures, hold some companies back from adopting IR. National regulations and listing requirements, which sometimes mandate specific disclosures, sometimes also constrain the degree of 'integratedness' in reporting (ACCA, 2016a). In a similar line, ACCA (2016b) further identified that lack of critical mass in IR adoption among preparers, lack of familiarity with IR among investors, capital market culture and prevalence of short termism, and misunderstanding around the capitals model as some other challenges of IR.

Some challenges, particularly relating to materiality and conciseness principles in adopting IR, were addressed in ACCA (2016a) as:

- Concerns in establishing IR's interaction with existing regulatory requirements and legal reporting frameworks in different jurisdictions
- Preparers' concerns about how they can provide a concise report that is not too broad to be useful and at the same time meets the needs of a range of stakeholders with one report
- Concerns relating to winning the cost vs benefits in IR, as IR is a potentially expensive activity because of the resources involved and the degree of cultural change required
- Clarifications on the roles of auditors and assurance providers due to the non-existence of an assurance framework for IR



Besides the above, and despite the improvements and benefits the organisations gained through IR, ACCA (2018a), through their study, have come across with new set of challenges in IR as:

- linking strategy and performance through to the way the business uses and affects key resources and value creation over the short, medium and long-term key resources
- the description of the board's role in enabling value creation
- discussions about the organisation's outlook
- the application of materiality

ACCA (2018a) suggested that in order to solve these challenges, report preparers need to think beyond reporting about organisational management.

## **2.15 Recent developments in IR**

### **2.15.1 The Corporate Reporting Dialogue's (CRD) Better Alignment Project**

The CRD is a platform to promote greater coherence, consistency and comparability between corporate reporting frameworks, standards and related requirements (IIRC, 2019). Through this project, the CRD participants, including Climate Disclosure Project (CDP), the Climate Disclosure Standards Board (CDSB), the GRI, the IIRC and the SASB, are committed to continuous progression towards better alignment of sustainability reporting frameworks, as well as with frameworks that promote integration between non-financial and financial reporting (IIRC, 2019).

This project will show the linkages of the TCFD recommendations with the respective frameworks and the linkages between the frameworks (SR and integration of information) (IIRC, 2019).

Supporting this project, the CDSB and CDP report (March 2018) has described four core elements of the Task Force on Climate-related Financial Disclosures (TCFD) as governance, strategy, risk management and metrics and targets in relation to the climate

related information and further identified that business leaders increasingly realize that climate risks and opportunities are not abstract concepts to be considered in isolation; rather, they are part of creating a business model focused on longer-term value creation (Deloitte, 2019b).

### **2.15.2 ESG Disclosure Handbook**

In April 2019, the World Business Council for Sustainable Development (WBCSD) issued the ESG Disclosure Handbook providing a clear structured process to inform a smart reporting strategy, addressing the key questions that really matter (WBCSD, 2019).

On the launch of this handbook, the CEO of IIRC has said that:

“The guidance in the document helps companies to identify the most material information report on their non-financial value drivers, including in an integrated report. I welcome efforts to streamline and rationalize reporting activity and help companies understand how to work through the options available to them” (WBCSD, 2019)

### **2.15.3 Position Statement by XRB**

The New Zealand External Reporting Board (XRB) considered that other types of, or more detailed, Extended External Reporting (EER) information, which may be demanded by other stakeholders, may be better located outside of the annual report and also considered that the XRB considers that a distinction needs to be drawn between EER relevant to the intended users (audience) of annual reports and EER provided for other purposes, such as public policy purposes (XRB, 2019). As they further stated, more detailed EER on a specific topic (for example, climate change) is required for public policy purposes, but not relevant to users of the annual report, in order to avoid ‘information overload’; the XRB believed that such EER should be presented outside the annual report (XRB, 2019).

The purpose of this Position Statement issued on March 2019 was to state the XRB’s position on the reporting of EER information by entities within their annual report. This Position Statement was not intended to provide guidance for the preparation and presentation of EER information (XRB, 2019).

#### **2.15.4 The IAASB's assurance on EER**

EER encapsulates IR, SR, non-financial reporting, pre-financial reporting, management discussion and analysis, management commentary, ESG reporting, CRR, community and environmental reporting and more (XRB, 2019; IAASB, 2019).

The IAASB's responses to EER becoming increasingly common and growing demand for assurance engagements in relation to it. Assurance engagements on EER are similar in concept to an audit (a specific type of assurance engagements) but they are performed on EER reports rather than on financial statements (IAASB, 2019).

This project aims to enable more consistent and appropriate application of ISAE 3000 (Revised) such that users of EER reports will have greater trust in the resulting assurance reports. The IAASB plans to achieve this primarily through the development of a document containing non-authoritative (non-mandatory) guidance ("the non-authoritative guidance document") in applying ISAE 3000 (Revised<sup>3</sup>) to EER (IAASB, 2019). A consultation draft was published in February 2019 and an exposure draft of guidance is expected to be published in early 2020 and the final guidance is expected to be released in late 2020 (IAASB, 2019).

#### **2.15.5 IFAC Policy Position 8**

In January 2017, IFAC issued the Policy Position Paper 8 on 'Enhancing Organisational Reporting: IR Key', considering IR as the way to achieve a more coherent corporate reporting system, fulfilling a need for a single report that provides a fuller picture of organisations' ability to create value over time (IFAC, 2017b). IFAC further believed that the integrated report can be used as an "umbrella" report for an organisation's broad suite of reports and communications, enabling greater interconnectedness between different reports and recognising that there is a range of different frameworks and regulations

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<sup>3</sup> International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information

available and under development (IFAC, 2017b). With this policy statement, IFAC declared their strong support for the IIRC and the implementation of IIRF.

#### **2.15.6 GRI's Corporate Leadership Group on IR (CLGir)**

As one of its co-conveners, GRI has been involved with the IIRC since its inception in 2010 and at present they work together as strategic partners.

Both IIRC and GRI share a vision of the evolution of corporate reporting for the 21st century in which sustainability reporting play an important role, especially in the context of sustainable development.

GRI is supportive of IR, as it develops as an important and necessary innovation of corporate reporting and advocates for the inclusion of robust sustainability metrics (based on a multi-stakeholder approach) to IR, in support of its overall vision of a sustainable global economy.

To strengthen the relationship on a more practical level, GRI and the IIRC have collaborated on CLGir, bringing together corporate leaders to explore the future of IR and SR and to contribute more directly to ongoing dialogue around IR (GRI, 2019). The CLG on IR is the unique platform in exploring corporate reporting through a wider lens, breaking down silos and enabling a more integrated view of performance (GRI, 2019). The second phase of the CLGir began in 2017. Insights from the CLGir revealed challenges, questions raised, and solutions from the group of experienced companies which have chosen to use an integrated approach to reporting.

#### **2.15.7 The SDGs, integrated thinking and the IR**

In September 2017, IIRC and ICAS (Institute of Chartered Accountants of Scotland), in partnership with Green Economy Coalition, issued a publication named, “The SDGs, integrated thinking and the IR”, aiming to contribute to the achievement of the SDGs by demonstrating how the IIRF can help organisations align their contribution to the SDGs with how they create value and aligning the SDGs with the multi-capitals in IIRF (IIRC, 2017a).

### **2.15.8 IR technology initiative**

As in IIRC (2019), the ‘IR Technology Initiative’ brings companies together to look at how technology can underpin new trends in corporate reporting, and in particular, can be applied to assist in the global adoption of IR. This initiative features companies from a range of disciplines, including business software, reporting software, sustainability software, consultancy and systems integration, and it has enabled them to share experiences and lead market innovation since 2013 (IIRC, 2019).

Through this initiative, these technology companies can learn of the challenges and problems faced by companies practicing next-generation reporting, so that tools and technologies can be applied to make corporate reporting faster, more efficient, more accurate and better integrated into business processes. The Head of Sustainable Strategy and IR in SAP discussed the strategic impact of SAP’s move towards IR, and why SAP is involved in this initiative as follows:

“If you want to be seen as an innovation leader, you have to work with the thought leaders. And you have to understand what their requirements are for the next generation of reporting. IR is all about transparency of your financial, social and environmental performance. Transparency is dependent on reliable and timely data. As a provider of business software we are very interested in requirements of our customers to enable them to do the next generation of reporting. Specially, when you think about outcomes and impacts, understanding large data volumes across value networks will become more important in future. We have technology and we will continue to build technology to enable these processes” (IIRC, 2019).

IIRC together with these technology initiative participants have published several documents for the benefit of preparers of IR, namely; “Technology for IR – A CFO guide for driving multi-capital thinking” (IIRC, 2016b), “Technical Programme Progress Report 2018” (IIRC, 2017c), and “Technology primer for IR: A Chief Information Officer guide” (IIRC, 2018a).

### **2.16 Recent developments in IR in other countries**

In 2017, the CEO of IIRC highlighted a series of breakthrough moments during the journey towards global adoption of IR. He stated that globally, over 1,600 organisations across 64 countries, including every G20 economy, have adopted IR, 16 regulators have

recommended or moved to align with IR and networked with over 2000 global participants (IIRC, 2018b). Further, he indicated that IR is in mainstream reporting in South Africa and Japan. It is nearly 10 years since the inception of IIRC.

As IR's components are subject to existing local regulations, which vary between jurisdictions, progress towards IR was expected to evolve at different speeds in different countries (The Accountant Online, 2016).

### **2.16.1 South Africa (SA)**

IR in SA began with the King Code of Governance for South Africa 2009 (King III), which stated that “a key challenge for leadership is to make sustainability issues mainstream. Strategy, risk, performance and sustainability have become inseparable, hence the phrase ‘integrated reporting’ which is used throughout this Report” and recommended that companies prepare an integrated report to reflect this (CPA, 2019). On 1 March 2010, the JSE adopted (mandated) the King III principles as part of its listing requirements, which required listed companies to apply King III or explain why the recommendations have not been applied and publicly provide reasons for not doing so (CPA, 2019). However, King III did not elaborate on how this report should be structured or what content it should contain. This led to the birth of the Integrated Reporting Committee of South Africa (IRC SA), a multi-organisational, voluntary, national body that has brought together accountants, company secretaries, internal auditors, directors, institutional investors, the JSE, companies, and others with an interest in corporate reporting. The IRC SA developed a framework for an integrated report in 2011, which was used as a starting point for the development of the IIRF released in December 2013.

JSE listed companies released their first integrated reports in 2010/2011 and it has become a common practice that has spread to the public and non-profit sectors. Today, South African organisations follow the recommended practices of the recently released King IV Code (released in 2016) which emphasises integrated thinking in a business and recommends the preparation of an integrated report.

The majority of the IR research has also been conducted in SA (for example, Adams, 2017; Atkins & Maroun, 2015; Barth, , Cahan, Chen, & Venter, 2017; Haji & Anifowose, 2016a,

2016b; Lee & Yeo, 2016; Maroun, 2017, 2018; McNally & Maroun, 2018; Zhou, Simnett, & Green, 2017).

### **2.16.2 Japan**

In 2015, the Ministry of Economy, Trade and Industry (METI) in Japan, published a report recommending IR, called ‘Japan’s Corporate Governance Code’, in order to prompt better dialogue between businesses and investors, and enhance corporate value creation.

Within the Asia Pacific region, the most significant uptake of IR has been in Japan (The Accountant Online, 2016). This may be attributed to a different corporate culture, specifically the Japanese attitude towards stakeholder engagement and Japan’s history of adopting sustainable reporting had already seen greater acceptance of non-financial reporting in its system (The Accountant Online, 2016).

Since 2014, the KPMG Japan IR Centre of Excellence (CoE) has continually studied the disclosure trends of Japanese companies that prepare integrated reports, and in their 2017 report declared that a total of 341 integrated reports were issued in 2017 (KPMG, 2018).

Moreover, in light of the changing corporate reporting setting in Japan, the Japanese Institute of Certified Public Accountants (JICPA), already being the leader in enhancing corporate reporting and certified public accountants (CPAs), are expected to play a major role in enhancing reliability of corporate reporting in order to sustain and realise the sustainable value creation for Japanese businesses.

The IIRC and the International Corporate Governance Network (ICGN), together with the JICPA and the Japan Exchange Group (JPX), hosted a two-day conference in 2018 in Tokyo, Japan, attracting over 400 leaders in business, investment and accountancy in the world (IIRC, 2019). In conjunction with the conference and based on the IR concept JICPA has published “Vision for the future of integrated reporting and the role of CPAs – Building a corporate reporting model to support sustainable creation” (IIRC, 2019), by building a corporate reporting model that supports sustainable value creation through five key drivers and four supporting measures.

### **2.16.3. United States**

In August 2018, U.S. President Donald Trump tweeted:

“In speaking with some of the world’s top business leaders I asked what it is that would make business (jobs) even better in the U.S... Stop quarterly reporting and go to a six month system...That would allow greater flexibility and save money. I have asked the SEC to study” (IIRC, 2018c).

In response, the SEC Deputy Chief Accountant, stressed the focus of the SEC on developing a regulatory platform that promotes objectivity, integrity and long-termism in capital market decision-making, principles very much aligned to the movement towards integrated reporting (IIRC, 2018c).

IIRC believed the SEC should consider a project to re-examine their guidance on Management’s Discussion and Analysis and also believed that a multi-capital approach to Management’s Discussion and Analysis could go a long way in serving the long-term interests of main street investors (IIRC, 2018c). As a result, IASB has revised and updated its guidance on ‘management commentary’ and the Chairman of IASB has stated that:

“Will reflect new developments in integrated and sustainability reporting, and particularly the growing interest in long-term value creation” (IIRC, 2018c)

According to IRRCI’s (2018) report, just seven companies issued integrated reports in the S&P 500 and it doubled to 14 in 2014. Out of those, only 5 continued to do so in 2018. In 2014, US SASB and the IIRC reached a MoU to accelerate the practical implementation of IR in USA. However, as in IRRCI (2018), IR has not yet deeply penetrated the SR landscape of U.S. companies, even though 35 companies indicated that their reporting is influenced by SASB, most of those have not yet issued integrated reports. In fact, the majority of companies that issued integrated reports in 2017 cited neither SASB nor IIRC.

### **2.16.4 Australia**

KPMG Australia’s latest report showed that the demand for better information is now rising and being answered by companies (KPMG AU, 2017). In 2017, there was a big increase in the number of ASX-listed companies adopting the principles of integrated reporting, 48% which was up from 25% a year before. As identified by KPMG Australia, the driving



forces on IR among ASX companies are backdrop of falling of Edelman Trust Barometer company, rapid technological innovation, revised draft of the Corporate Governance Principles and Recommendations of ASX Corporate Governance Council, policy statement issued the Australian Institute of Company Directors (AICD) by encouraging directors to consider the aims and principles of the IIRF etc. (KPMG AU, 2017).

### **2.16.5 External reporting and IR in NZ**

Extended External Reporting (EER) means all information above and beyond what a company is required to provide under New Zealand legislation (Companies Act 1993 and the Financial Reporting Act 2013) and includes information on a company's outcomes, governance, business model, risks, prospects, strategies and its economic, environmental, social and cultural impacts (IIRC, 2018d).

The New Zealand External Reporting Board (XRB) in collaboration with the McGuinness Institute have worked on a project called 'Project Reporting NZ' and they undertook two surveys in mid-2017 on the current state of extended external reporting from the perspectives of preparers and users. They used the concepts and principles of the IIRF as a way to set the context for framing the content and survey questions in these surveys (IIRC, 2018d).

The state of the EER was analysed in terms of five key areas: accessibility, engagement, content, frameworks and assurance. While the first survey was based on the preparers' perspectives on EER (what preparers think about EER), or in other words it was about the attitudes of the chief financial officers' (CFOs) of significant companies (NZSX-listed companies as at June 2017), towards EER, and the second survey was from the users' perspectives (investors, industry organisations, NGOs and universities) on EER (what users think about EER), or in other words attitudes of interested parties towards EER. The research showed that some three-quarters of the CFOs of New Zealand public companies are either unaware of or not interested in the range of emerging EER methods/frameworks available for extending reporting beyond traditional financial indicators. Surprisingly, 91% of the preparers were not aware of the IIRC framework and 84% on GRI (IIRC, 2018d).

### **2.16.6 UK**

During 2016, the UK Treasury strongly encouraged public sector organisations to adopt IR, as they set out minimum requirements, some best practice guidance and the underlying principles to be adopted in preparing information (The Accountant Online, 2016). The UK Treasury encouraged corporate decision-making to embed information typically found in stand-alone sustainability reports, and this endorsement of the framework demonstrated that it is regarded as robust enough to apply to stakeholders other than investors (The Accountant Online, 2016).

In addition, as posted by the Black Sun Plc in IIRC, the UK government published the Companies (Miscellaneous Reporting) Regulations in June 2018, introducing a new requirement to include a section 172 statement in the strategic report (to include employee and wider stakeholder engagement, new remuneration reporting requirements in the directors' report) and following this, FRC published the new Corporate Governance Code, emphasising the need for the board to set the purpose, culture, and longer-term strategy of the company while also increasing the focus on section 172 (IIRC, 2018e).

With these requirements, the purpose driven, multi-capital, stakeholder and outcomes focus inherent to integrated reporting is beginning to emerge in UK reports (IIRC, 2018e).

### **2.16.7 European Union (EU)**

EU Directive 2014/95/EU was established as a steppingstone to IR. The European Commission (EC) acknowledged IR is a 'step ahead' of its ESG Directive 2014/95/EU. Under this Directive, large public-interest companies with more than 500 employees have to publish reports on non-financial performance (environmental protection, social responsibility, human rights, anti-corruption and bribery, diversity on company boards etc.) (EC, 2019; Loprevite, Rupo, & Ricca, 2018). IIRC's CEO posted that this EU Directive will see at least 6,000 companies across Europe change their reporting during 2018 and further stated that this Directive reflects the principles of integrated reporting, recognising the key concept of connectivity, i.e. the importance of linkages and inter-relations of information (connectivity), whether it is between different aspects of non-financial

information or between financial and non-financial information (IIRC, 2017x). This post also mentioned that among the 1,500 global companies adopting IR are the 36 top companies in Spain, a third of all listed companies in Netherlands, with all of the CAC (standing for Cotation Assistée en Continu, which is the benchmark stock market index of France) 40 top listed companies in France.

The study of Dumay et al. (2019) explored how the key features from intellectual capital and IR can be combined to develop an extended model for companies to comply with EU Directive 2014/95/EU and increase trust in corporate disclosures and reports.

However, the Alliance for Corporate Transparency (ACT) project in 2019 analysed the European companies on this Directive and found that even though most companies acknowledged the importance of environmental and social issues in their reports, they failed to provide meaningful information about their impacts on society and the environment in terms of concrete issues, targets and principal risks (ACT, 2019).

#### **2.16.8 G20 Countries**

Despite the above countries, the B20 Summit released a report on “unlocking investment in infrastructure” in which one of its key recommendations to the G20 finance ministers specifically referred to IR as an example. In its initiative 1.1.2 on page 9:

“To create an enabling regulatory environment for infrastructure investment, the G20 should ... Commission a review by the IIRC and IASB of accounting rules that may hinder investment in infrastructure and a report that recommends what G20 governments should do to promote widespread adoption of IR” (IIRC, 2015x).

Furthermore, IR has been endorsed by the Chinese Ministry of Finance by expressing support for IR in the Ministry’s recently released five-year plan and India’s securities regulator recommended IR for the top 500 listed companies (IIRC, 2018b). Over 20 companies began their IR journey in 2016 and IR is now part of stock exchange listing rules in Brazil (IIRC, 2018b).

Eccles Krzus, and Solano, (2019) explored the extent to which companies around the world are using the framework to prepare their reports and whether country-to-country differences exist in the content and quality of integrated reports. The authors selected five

companies from each of the following countries and grouped into three categories of qualities of disclosure: High (Germany, the Netherlands, and South Africa), Medium (France, Italy, South Korea, and the United Kingdom), and Low (Brazil, Japan, and the United States).

### **2.17 IR in developing countries**

IR is gaining momentum in both the developed and developing countries due to its potential to change corporate thinking and is thus leading to integration of sustainability impacts into corporate strategic planning and decision-making (Adams, 2015; Gunarathne & Senaratne, 2017; Juma, Orobio & Tumwebaze, 2018; Robertson & Samy, 2015).

However, a dearth of research on IR is found in developing country contexts and scholars have evidenced that IR in developing countries is not yet embraced by businesses, regulators and governments (Adegboyegun et al., 2020; Engelbrecht, Yasseen & Omarjee 2018; Juma et al., 2018; Lipunga, 2015), while in the developed countries IR has rapidly gained considerable prominence since the formation of IIRC in 2010 (Setia et al., 2015).

Voluntary disclosure is more common and increasing (Eccles & Serafeim, 2011) in developing countries. For example, there is no legal requirement for both listed and non-listed firms in Uganda to prepare integrated reports (Juma et al., 2018). Similarly, in Kenya, IR adoption is urged and emphasised by the Institute of Certified Public Accountants in Kenya (ICPAK) and by the Nairobi stock exchange (Juma et al., 2018). Lipunga (2015) urged revising listing requirements and updating corporate governance codes more specifically to IR. Despite these voluntary disclosures, the JSE made IR mandatory by initiating South Africa as the first country in the world to regularize integrated reporting by requiring all companies listed on JSE to prepare integrated reports since March 2010 (Juma et al., 2018). In a recent study, Adegboyegun et al. (2020) examined the impact of IR on the performance of thirteen banking organisations in Nigeria between 2009 and 2018. The study of Gunarathne and Senaratne (2017) and the present study also ensure that developing countries are not left behind in terms of IR adoption, thus exploring IR in Sri Lanka.

## **2.18 IR in Sri Lanka**

The selected country for the present study is Sri Lanka.

### **2.18.1 Corporate reporting research in Sri Lanka**

Past research in voluntary social and environmental reporting in Sri Lanka includes studies about intellectual capital (IC) reporting, corporate social responsibility (CSR) reporting and sustainability reporting (SR). In the absence of accounting standards or laws necessitating the reporting of IC, Abeysekara and Guthrie (2004a) sought to examine the status of IC disclosure of the top 30 companies (by the market capitalisation) listed on the CSE Sri Lanka based on a content analysis of an annual reports review. Same authors have developed IC disclosure content categories which provide a tool that would be used to assess the type, amount and quality of IC reporting disclosures (Abeysekara & Guthrie, 2004a, 2004b, 2005). Abeysekara (2011) also provided insights into the IC disclosure practice and its influence on stock return during a civil war period from 1998 to 2003.

In terms of corporate social reporting, Sri Lanka has a long history of corporate philanthropy, which has been majorly led by individual values and actions rather than well-established formal CSR practices or public relations practices, compared to other countries in South Asia (Beddewela & Herzig, 2013). When reviewing past academic and professional research in the Sri Lankan context, it was evident that there has been an increasing awareness of CSR and a steady rise in voluntary CSR reporting amongst publicly listed companies in Sri Lanka over the years (Ajward, 2006; Beddewela & Herzig, 2013; Rajapakse, 2002, 2003, 2009; Senaratne, 2010). Beddewela and Herzig (2013) stated in their study that a survey conducted by ACCA in 2005 based on the top 75 listed companies and 25 non-listed companies in Sri Lanka found that 69% of the listed companies included only some form of disclosure on environmental and/or social issues in their annual reports, while 31% did not report on these issues at all. Mirror findings to this survey were found in Rajapakse (2009), which revealed that 120 companies out of 238 listed on CSE in 2016 reported on CSR issues, and out of this 120, only 85 companies included a separate section devoted to CSR and 16 had stand-alone corporate social reports. This was further confirmed by Senaratne (2010) pointing out that the number of companies

publishing stand-alone corporate social reports and the quality of disclosure remain low. That study further claimed that social disclosure remains basic and has predominantly taken on a qualitative or narrative form, with only a few companies publishing stand-alone corporate social or sustainability reports. While paying attention to the CSR reporting practices of Sri Lankan-based multi-national corporations' subsidiaries, Beddewela and Herzig (2013) claimed that the need to attain internal legitimacy and conformity to formal institutionalised processes for reporting on CSR is a barrier against publishing separate social reports in Sri Lanka. Hence, it has been concluded that voluntary CSR reporting of publicly listed companies in Sri Lanka has been increasing, but overall remains at a very embryonic stage and it was done merely because many companies were competing with each other to show their excellence in addressing different aspects of CSR/sustainability reporting.

According to Dissanayake, Tilt and Xydias-Lobo (2016), very few studies have been carried out on sustainability reporting in Sri Lanka. Findings of Wijesinghe (2012) and Fernando and Pandey (2012) revealed that the overall level of CSR disclosure is at a low level and there is a need of much improvement in governance, economic, social and environmental disclosures, which are the major components of sustainability. In terms of the motivations for reporting, the general perceptions of the CEOs were supportive and had a positive outlook towards social and environmental disclosure practices (Fernando & Pandey, 2012). The few CSR and SR studies that have been conducted, mostly in the context of multinational companies in Sri Lanka, concluded that sustainability disclosures are gaining momentum in Sri Lanka but are still emerging (Beddewela & Herzig, 2013). In the absence of prior studies dealing with sustainability KPI reporting in Sri Lanka, Senaratne and Liyanagedara (2012) explored the level of compliance with GRI guidelines in the sustainability disclosures and the total number of KPIs reported by companies. Besides, Dissanayake et al. (2016) empirically examined sustainability reporting in publicly listed companies in Sri Lanka, its extent, nature and possible drivers, specifically considering the use of key performance indicators. In reviewing the progress made by the Global Reporting Initiative among Sri Lankan corporates, a survey conducted by one of the consultancy firms in Sri Lanka claimed that as at 30<sup>th</sup> September 2015, 59 public listed

companies (30%) prepared their annual report using either the G3.1 or G4 Guidelines, which shows commendable progress (SheConsultants, 2016).

In Sri Lanka, there is no legislative or other requirement mandating the IR practice and the preparation of Integrated Reports. However, more than a mandatory requirement, there is a considerable growing trend in embracing IR practices as a voluntary disclosure method of the companies' information, particularly non-financial information (CMA, 2015). Following the global importance and recognition of IR, many accounting firms, professional accounting bodies are highlighting the importance and engaged in promoting this new corporate model, IR. Correspondingly, Gunarathne and Senaratne (2017) found that:

The ample availability of professional accountants, mounting stakeholder demands, a supportive accounting profession and related industries and intense competition among organisations along with the national culture play a key role in facilitating the adoption of new accounting tools such as SR or IR in Sri Lanka (p. 525).

While many studies have investigated IR in developed countries, there is a dearth of research in developing countries, particularly in Sri Lanka. Two of these studies are Gunarathne and Senaratne (2017) and Herath and Gunarathne (2016). Sri Lanka exhibits growing interest in IR (Gunarathne & Senaratne, 2017). They identified the adopter groups of IR of CSE based on an annual report review and examined the diffusion of IR in Sri Lanka using a content analysis of the semi-structured interviews based on the demand-pull and supply-push sides of the diffusion theory of innovation. Their findings revealed that IR has been mainly a transition evolving through incremental changes in sustainability reporting and many firms have not internalised the IR principles, with the danger of it becoming a mere reporting mechanism. In a conference proceeding, Herath and Gunarathne (2016) presented a checklist to assess the gap between present corporate reporting practices and the IIRC guidelines on preparing an integrated report, particularly the content elements. Based on a sample of CSE, Pathiraja and Priyadarshani (2018) examined the impact of firms' characteristics on the level of IR adoption in another conference paper. Their findings revealed that there is a significant impact of firms' age, leverage, ownership dispersion, total assets, total sales and industry type on the level of IR adoption. Recently, a thesis study was also carried out on the IR adoption decision by Sri

Lankan Public Listed Companies (PLCs) from different perspectives (Attanayake Mudiyansele, 2018). According to the best knowledge of the present researcher, the present study found no other studies which have explored the nature and extent of disclosure of IR practices using a disclosure index in the Sri Lankan context. The present study findings identified that some of the Sri Lankan companies had started adopting IR disclosure practices even before the release of the IR framework.

## **2.19 Chapter summary**

This chapter provides an overall understanding of the IR concept, formation of IIRC, components of IR, benefits and challenges of IR. This chapter also compares IR with the existing reporting practices followed by organisations. The evolution of IR, recent developments of IR, and recent developments in other countries are also addressed. The chapter concludes with a general description of IR in developing countries, yet with special reference to IR in Sri Lanka.

Following the research background, the next chapter addresses the literature review for the present study.



## **Chapter 03**

### **Literature Review**

#### **3.1 Chapter introduction**

This chapter provides a review of the integrated reporting literature. The aim of this chapter is to explore the status of research on IR by conducting a comprehensive review of the existing IR literature and to uncover research gaps and expand the body of knowledge on IR. Section 3.2 offers the background for the literature review (LR) approach. Section 3.3 provides the methodology adopted in the literature review approach in synthesising the existing literature on IR. Section 3.4 describes the division of review results into two stages. The review findings related to stage one of the review approach is discussed in section 3.5 based on five classification themes of the literature, namely, research topic, research setting, research methods, primary data analysis tools and research theories of the past IR research. Section 3.6 provides a detailed analysis of the review findings related to stage two of the review approach, under three main themes. The last section 3.7 presents the chapter summary.

#### **3.2 Background for the literature review approach**

A few studies have addressed the need of a review of literature (de Villiers et al., 2014; de Villiers, Hsiao, & Maroun, 2017a; de Villiers, Venter, & Hsiao, 2017b; Dumay et al., 2016; Oll & Rommerskirchen, 2018; Perego & et al., 2016; Velte & Stawinoga, 2017). For example, Velte and Stawinoga (2017) provided a literature review by evaluating 44 empirical studies on IR which were published especially after the adoption of the IR framework by the IIRC in December 2013. Both the studies of Velte and Stawinoga (2017) and Oll and Rommerskirchen (2018) gave prominence to addressing the criticisms of IR. While Oll and Rommerskirchen (2018) identified three priority areas of criticism as being criticism of the fundamental concepts of IR, criticism of the guiding principles, criticism of the IIRC, Velte and Stawinoga (2017) limited their analysis only to 44 empirical IR studies. Dumay et al. (2016) expected more empirical rather than normative research in the future, while identifying the need for developing IR theory into practice. On a similar

ground, Lodhia (2015) argued that IR is a relatively recent phenomenon, and there is a need for further research in this area, especially in relation to how IR develops as a practice. With a structured literature review, Dumay et al. (2016) reviewed the field of IR to develop insights into how IR research is developing a rich debate, offered a critique of the research to date, and outlined future research opportunities. In a similar vein, Adams (2015) called for academics to engage with the process and contribute to the development of the need for IR. These point towards evidence of a dearth of IR research, especially as ‘IR literature studies or IR review studies’. Hence, this evidence endorsed the need of the present literature review, and thus the present researcher has taken a considerable attempt to integrate and expand upon the previous research available on IR and to identify the way forward for IR on its journey to become the corporate reporting norm in future.

### **3.3 Review approach**

The underlined objective of this LR is to develop an accumulated advancement of knowledge on IR research by assessing and synthesising past research, both in academic and professional contexts. After an in-depth assessment of past IR studies and insights and critiques prevailing in such IR studies, the present research has identified the gaps in the existing literature on the IR agenda. Based on the gaps identified, the present research has then propounded future IR research directions within which the present study located its research objectives.

The sources of the LR process were based on the academic journals, reports and magazines issued by professional institutes, accounting firms, regulatory bodies, standard setters and consultancy firms. This study has also considered peer-reviewed conference papers on IR, which provide insights into the areas of debate that will later appear in academic journals (Dumay et al., 2016). In order to conduct the systematic review, this study followed the review approach adopted by Hoque (2014) by redesigning it in the present research context (see Figure 3.1).

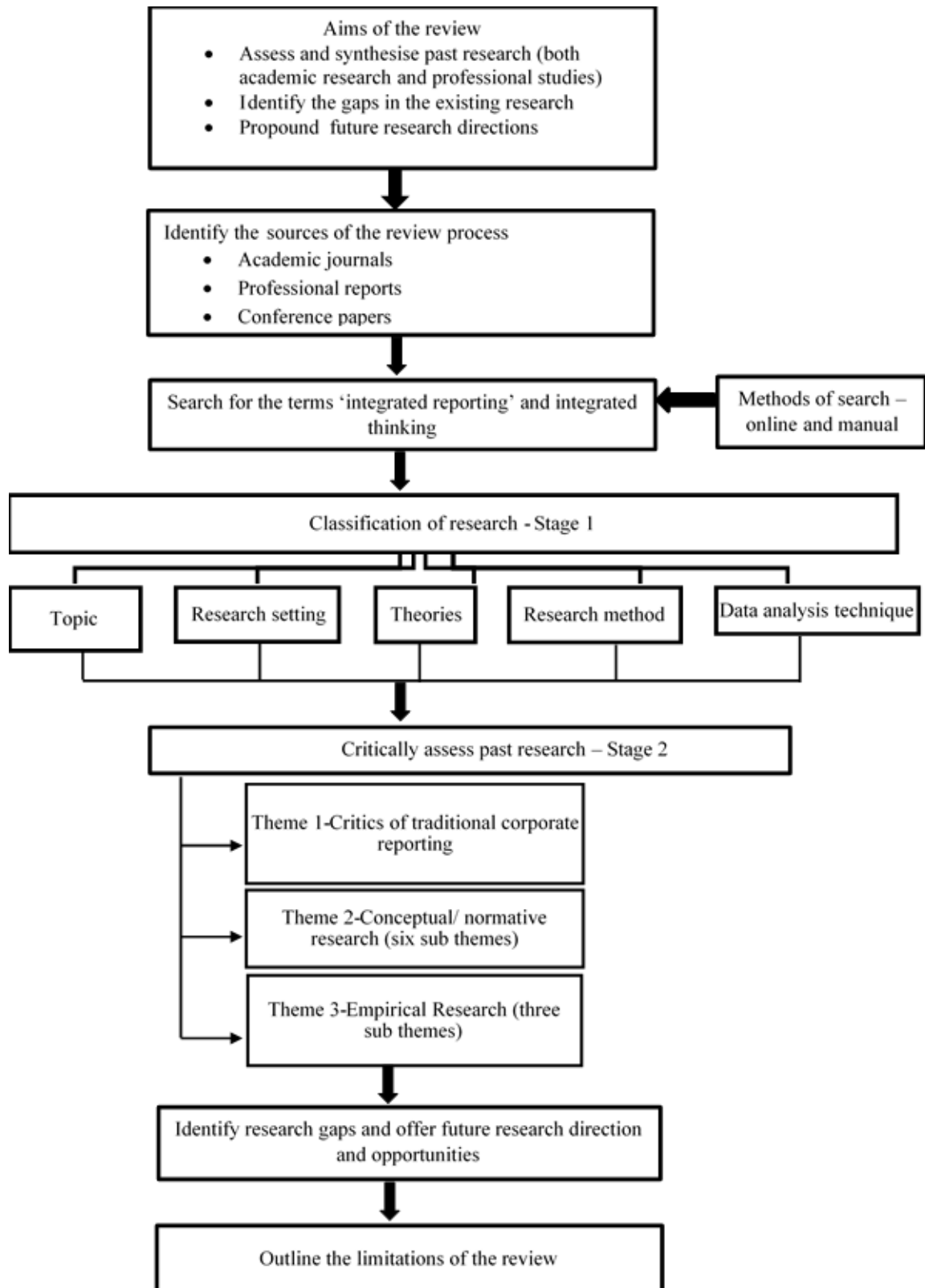


Figure 3.1: Literature review approach (Source: Author, based on Hoque, 2014)

Similar to Hoque (2014), the present study applied some subjective criteria in selecting the academic journals for the review. This study used the Australian Business Deans Council's (ABDC) Journal Quality List of 2013 which included a total 2767 different journals divided into four categories of quality, ranging in descending order as A\*, A, B, and C (ABDC Inc, 2018). The ABDC list rank "Best or leading journals in its field" as "A\*", "Highly regarded journal in the field or sub-field" as "A", "Well regarded journal in the field or subfield" as "B" and "A recognised journal" as "C". Due to the relative newness of the IR concept and also with an objective of developing an accumulated advancement of knowledge on IR research, the present study's sample consisted of ABDC journals published in all four quality categories as above, rather restricting the review sample only to journals published as highly ranked journals. In all four quality categories, the journal selection was based on three disciplinary areas<sup>4</sup>— accounting, finance and management. As shown in Table 3.1, the total number of articles considered for the present study was 1116.

After finalising the ABDC journal sample, under the umbrella term "integrated reporting", a word search was carried out based on the two key phrases 'integrated reporting' and 'integrated thinking' to obtain the articles. Several rounds of searching on those two key words were undertaken to determine their relevance and the extent to which they carry the insights, gaps and practice of IR and integrated thinking. While the search method was mostly done online, a manual search was also carried out especially relating to the professional reports published in the context of IR. The time period considered for the first stage of review is from 2009 to 1<sup>st</sup> July 2018. The selection of the time period is based on the fact that the IRC SA was established in 2009 and academics started doing research on this topic mainly from 2009 onwards. All the downloaded articles were stored in separate folders and imported to EndNote X8 with references.

The aforementioned keyword search criteria resulted in the final sample of 168 articles published on IR in 56 ABDC-ranked journals in accounting, finance and management disciplines (Appendix A and B). Out of a total of 1116 journals listed on the ABDC in

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<sup>4</sup> Field of research codes for the selected journals are 1501: Accounting, 1502: Finance and 1503: Management

accounting, finance and management disciplines, only 5% of the journals (56) contained research articles on IR. Out of the 124 accounting journals listed on the ABDC list, IR research articles were featured only in 27 journals (of 22% of total accounting journals). Similarly, IR articles appeared only in 2% of the finance journals and in only 3% of the management journals (see Table 3.1). Therefore, it can be argued that IR research has not gained much attention from scholars in accounting, finance and management disciplines. These findings support Dumay et al.'s (2016) claim that IR research is still at a stage where its efforts typically focus on raising awareness of a specific research field's potential.

Table 3.1 – Total number of journals considered for the review (in stage one)

| ABDC<br>ranking | Field of Research           |  |                             |  |                             |  | Total<br>journals |
|-----------------|-----------------------------|--|-----------------------------|--|-----------------------------|--|-------------------|
|                 | Accounting                  |  | Finance                     |  | Management                  |  |                   |
|                 | No. of<br>total<br>journals | No. of<br>journals<br>with IR<br>studies | No. of<br>total<br>journals | No. of<br>journals<br>with IR<br>studies | No. of<br>total<br>journals | No. of<br>journals<br>with IR<br>studies |                   |
| A*              | 9                           | 1  | 11                          | 0  | 57                          | 0  |                   |
| A               | 21                          | 8  | 31                          | 1  | 197                         | 9  |                   |
| B               | 29                          | 11                                       | 55                          | 2  | 206                         | 7  |                   |
| C               | 65                          | 7  | 86                          | 1  | 349                         | 9  |                   |
| Total           | 124                         |  | 183                         |  | 809                         |  | 1116              |
| Total IR        |                             | 27                                       |                             | 4  |                             | 25                                       | 56                |
| % of IR         |                             | 21.8                                     |                             | 2.2                                      |                             | 3.1                                      |                   |

In addition to reviewing research published in academic journals, the present study also includes IR articles published by the top accounting firms and professional bodies. These institutions were based on the International Integrated Reporting Council (IIRC) member organisations and partner organisations as included in the IIRC website, and the word search for the two key words IR and integrated thinking was carried out using each individual institution's website's search bar. Using the search criteria, publications issued

by the big four international accounting firms (Deloitte, EY, KPMG and PWC<sup>5</sup>), international professional organisations (such as ACCA, CIMA, CGMA, AICPA, SAICA, SAIPA, CASL, IMA<sup>6</sup>), international regulatory bodies (such as SASB, IASB, IAASB, IFAC, IRCSA, IIRC, IRCSL<sup>7</sup>), interest groups (AccountAbility; A4S; GRI) and consultancy firms (Black Sun Plc, DirectorsBrief, NIBR) were downloaded for this research (see Appendix D and E). In addition, this study reviewed conference papers on IR included in proceedings of peer-reviewed conferences. This was also evidenced in past research which showed that the IR concept has gained, and continues to gain, significant attention from academic researchers (Dumay et al., 2016) and professional bodies (Haji & Hossain, 2016).

### 3.4 Review findings and discussion

Following the word search, the review findings of this LR approach are explained under two distinct stages. *First stage* of the review findings is based on the research paper submitted by the present author to a peer-reviewed journal, as a LR paper with the title, ‘A Stocktaking of Integrated Reporting Research’. This is described under the section 3.5 as ‘review of IR literature in peer-reviewed journals’ in this chapter. The published academic IR articles in ABDC-ranked journals were classified and tabulated based on the five themes: research topics, research settings, research methods, primary data analysis techniques and research theories. For the stage one findings, the word search was last updated till mid-2018.

*Second stage* of the review findings provides a comprehensive assessment of existing IR literature while addressing the broader perspective of how IR research has been widened since its inception as a concept. And this is described under the section 3.6 as ‘In-depth

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<sup>5</sup> Deloitte Global Services Limited/Deloitte Touche Tohmatsu Limited, Ernst & Young Global Management Limited, KPMG International Cooperative, PricewaterhouseCoopers Limited

<sup>6</sup> The Association for Chartered Certified Accountants, The Chartered Institute of Management Accountant, The Chartered Global Management Accountant, The American Institute of Certified Public Accountants, The South African Institute of Chartered Accountants, The South African Institute of Professional Accountants, The Institute of Chartered Accountants in Sri Lanka, Institute of Management Accountants

<sup>7</sup> Sustainability Accounting Standards Board, International Accounting Standards Board, The International Auditing and Assurance Standards Board, International Federation of Accountants, International Integrated Reporting Council Integrated Reporting Council Sri Lanka

analysis of existing IR research’ in this chapter. Despite the first stage, the second stage of LR analysis was not restricted to peer-reviewed academic journals, and thus incorporates IR research in both peer-reviewed as well as other academic journals, publications (reports and magazines) issued by accounting firms, professional accounting organisations, regulatory bodies, standard setters, and consultancy firms, etc., and conference proceedings as well. Dumay et al. (2016) substantiated the need of a literature review in the first stage of a contemporary research field, such as IR, to capture all available comprehensive IR literature available in the forms of published academic journals and conference proceedings.

Through a comprehensive and critical assessment of the IR literature based on the above two stages of the LR approach, the present study was able to identify the research gaps evidenced in the existing IR literature and then to derive the research objectives from the identified research gaps and also to propound future research direction.

### **3.5 Review findings of peer-reviewed journals (in stage one)**

#### **3.5.1 IR studies in accounting and finance/management journals**

##### **3.5.1.1 Frequency analysis of articles by accounting journals**

Table 3.2 provides the frequency distribution of 168 IR articles published by 27 ABDC-ranked accounting journals. More than half of the articles (55 of 97 articles, which is 56.7%) were published from 2015 to 2017, only one article was published during 2009–2011 and 15 articles were published during 2012–2014. Overall, the highest number of articles (19) appeared in AAAJ<sup>8</sup>, one of the premier journals in accounting. AAAJ also had a special issue on IR. Interestingly, 18 articles were also published in MEDAR journal in the ABDC journal quality list. Other journals that have published research in IR are SAMPJ (10.3%), CPA (7.2%), AUAR (5.2%) and 4.1 % of the articles in BAR, MAJ and RAED. Table 3.2 further reveals that the top-ranked journals in the accounting discipline (“A” and “A\*” ranked) published very few (one or two articles) articles on the IR concept. These

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<sup>8</sup> Refer to Appendix A for the journal titles.

journals were AOS, ACFI, RABR and JACCPUBPOL (2.1% each) and ABAC and IACE (which is 1% each).

Table 3.2: Percentage of articles published on IR in ABDC ranked accounting journals

| Journal acronym | ABDC Rating | 2009-2011 | 2012-2014 | 2015-2017 | 2018 | Total | %     |
|-----------------|-------------|-----------|-----------|-----------|------|-------|-------|
| ABAC            | A           | 0         | 0         | 1         | 0    | 1     | 1.0   |
| RABR            | A           | 0         | 0         | 2         | 0    | 2     | 2.1   |
| ACFI            | A           | 0         | 0         | 1         | 1    | 2     | 2.1   |
| AAAJ            | A           | 0         | 7         | 3         | 9    | 19    | 19.6  |
| RAED            | B           | 0         | 4         | 0         | 0    | 4     | 4.1   |
| ACCFOR          | B           | 0         | 0         | 2         | 0    | 2     | 2.1   |
| ARJ             | B           | 0         | 0         | 1         | 0    | 1     | 1.0   |
| AOS             | A*          | 0         | 0         | 1         | 1    | 2     | 2.1   |
| AUAR            | B           | 1         | 0         | 1         | 3    | 5     | 5.2   |
| BAR             | A           | 0         | 1         | 2         | 1    | 4     | 4.1   |
| CPA             | A           | 0         | 0         | 6         | 1    | 7     | 7.2   |
| IJAFR           | C           | 0         | 0         | 1         | 0    | 1     | 1.0   |
| IJMFA           | C           | 0         | 0         | 0         | 1    | 1     | 1.0   |
| IACE            | A           | 0         | 0         | 1         | 0    | 1     | 1.0   |
| ISEA            | C           | 0         | 1         | 0         | 0    | 1     | 1.0   |
| JAMIS           | C           | 0         | 0         | 2         | 0    | 2     | 2.1   |
| JACCPUBPOL      | A           | 0         | 0         | 2         | 0    | 2     | 2.1   |
| JAAR            | C           | 0         | 0         | 0         | 1    | 1     | 1.0   |
| JFRA            | C           | 0         | 0         | 0         | 1    | 1     | 1.0   |
| JIFM            | B           | 0         | 1         | 1         | 0    | 2     | 2.1   |
| MAJ             | B           | 0         | 0         | 3         | 1    | 4     | 4.1   |
| MEDAR           | C           | 0         | 0         | 15        | 3    | 18    | 18.6  |
| GRAM            | B           | 0         | 0         | 1         | 0    | 1     | 1.0   |
| JRACREG         | B           | 0         | 0         | 1         | 0    | 1     | 1.0   |
| RQFNAC          | B           | 0         | 0         | 1         | 0    | 1     | 1.0   |
| SAMPJ           | B           | 0         | 1         | 6         | 3    | 10    | 10.3  |
| SEAJ            | B           | 0         | 0         | 1         | 0    | 1     | 1.0   |
| Total           |             | 1         | 15        | 55        | 26   | 97    | 100.0 |



### 3.5.1.2 Frequency analysis of articles by finance/management journals

Table 3.3: Percentage of articles published on IR in ABDC ranked finance/management journals

| Journal acronym | ABDC Rating | 2009-2011 | 2012-2014 | 2015-2017 | 2018 | Total | % frequency |
|-----------------|-------------|-----------|-----------|-----------|------|-------|-------------|
| BEER            | B           | 0         | 0         | 1         | 0    | 1     | 1.4         |
| BUSHOR          | C           | 0         | 0         | 1         | 0    | 1     | 1.4         |
| BSE             | B           | 0         | 2         | 3         | 0    | 5     | 7.0         |
| JOUR            | A           | 0         | 0         | 1         | 0    | 1     | 1.4         |
| CCIJ            | B           | 0         | 1         | 1         | 1    | 3     | 4.2         |
| CSR             | C           | 0         | 1         | 2         | 2    | 5     | 7.0         |
| DCM             | A           | 0         | 0         | 1         | 0    | 1     | 1.4         |
| HBR             | A           | 1         | 1         | 0         | 0    | 2     | 2.8         |
| IBUSREV         | A           | 0         | 1         | 1         | 0    | 2     | 2.8         |
| JDG             | C           | 1         | 0         | 0         | 0    | 1     | 1.4         |
| IJEFI           | C           | 0         | 0         | 1         | 0    | 1     | 1.4         |
| JACF            | A           | 0         | 3         | 4         | 1    | 8     | 11.3        |
| JBE             | A           | 0         | 1         | 3         | 2    | 6     | 8.5         |
| JCC             | C           | 0         | 0         | 1         | 0    | 1     | 1.4         |
| JIC             | B           | 0         | 2         | 5         | 2    | 9     | 12.7        |
| JMG             | C           | 0         | 0         | 1         | 3    | 4     | 5.6         |
| JMR             | C           | 0         | 0         | 1         | 0    | 1     | 1.4         |
| MULFIN          | B           | 0         | 0         | 1         | 0    | 1     | 1.4         |
| KGC             | C           | 1         | 5         | 0         | 0    | 6     | 8.5         |
| MIT SMR         | A           | 0         | 1         | 0         | 0    | 1     | 1.4         |
| O&E             | B           | 0         | 0         | 0         | 1    | 1     | 1.4         |
| JPUBREV         | A           | 0         | 1         | 0         | 0    | 1     | 1.4         |
| RIIBAF          | B           | 0         | 0         | 1         | 0    | 1     | 1.4         |
| SRJ             | B           | 0         | 0         | 2         | 0    | 2     | 2.8         |
| SAJBM           | C           | 0         | 0         | 2         | 0    | 2     | 2.8         |
| SAJEH           | C           | 0         | 0         | 1         | 0    | 1     | 1.4         |
| ISEE            | A           | 0         | 0         | 1         | 0    | 1     | 1.4         |
| PQ              | B           | 0         | 0         | 0         | 1    | 1     | 1.4         |
| P&M             | A           | 0         | 0         | 1         | 0    | 1     | 1.4         |
| Total           |             | 3         | 22        | 36        | 14   | 71    | 100.0       |

Table 3.3 categorises the number of IR articles published in ABDC-ranked finance and management journals in the period 2009 to mid-2018. Among 71 articles published in 29 finance and management journals, 36 articles appeared during the period from 2012 to 2017. The highest number of articles was found in “B”-ranked journal JIC<sup>9</sup> (12.7%) followed by “A”-ranked JACF (11.3%) and JBE (8.5%), and then “B”-ranked BSE (7.0%) and CCIJ (4.2%). A few “C”-ranked journals also published articles on IR: CSR (7.0%), KGC (8.5%) and JMG (5.6%). Certain other “A”-ranked journals, such as JOUR, DCM, HBR, IBUSREV, MITSMR and JPUBREV, also featured one or two articles on IR. In Table 3.3, three articles from each of ISEE (Alexander & Blum, 2016), PQ (Diplock, 2018) and P&M (Rivera-Arrubla & Zorio-Grima, 2016) have also categorised with a frequency of 1.4%, though they appear from other disciplines in ABDC ranking.

To conduct a systematic literature review, this study developed five themes: (a) research topics, (b) research settings, (c) research methods, (d) primary data analysis techniques and (e) research theories. Articles included in the sample of this study were classified by using these themes, which are discussed in the next section.

### **3.5.2 The research topics**

This section discusses the IR research topics covered by the prior studies. Research topics were decided by this study by conducting a close analysis of the published papers. Research articles were then grouped into sub-themes: the need for IR; insights, gaps and future research on IR; reporting templates to existing IR guidelines; implications, issues and critical aspects of IR; IR in different organisational contexts; IR and integrated thinking; how IR is perceived in the organisations; new internal mechanisms to facilitate IR; implementation of IR; IR quality; analysis of the motivations/explanatory factors of IR; adoption/practice of IR; and IR disclosure index-based studies. Table 3.4 below depicts the research topics covered by the articles published on IR.

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<sup>9</sup> Refer to Appendix B for the journal titles.

Table 3.4: Percentage of articles on IR published in accounting journals by topics

| Research Topic  | Accounting Journals |           |           |      | Total | % frequency |
|---|---------------------|-----------|-----------|------|-------|-------------|
|   | 2009-2011           | 2012-2014 | 2015-2017 | 2018 |       |             |
| How IR is perceived in the organisations                  | 0                   | 0         | 9         | 7    | 16    | 16.5        |
| New internal mechanism to facilitate IR                   | 0                   | 1         | 10        | 3    | 14    | 14.4        |
| Criticisms, implications and issues                       | 0                   | 6         | 5         | 2    | 13    | 13.4        |
| Adoption/Practice of IR                                   | 0                   | 0         | 6         | 6    | 12    | 12.4        |
| Insights, gaps and future research                        | 0                   | 1         | 7         | 0    | 8     | 8.2         |
| Implementation of IR                                      | 0                   | 4         | 3         | 0    | 7     | 7.2         |
| Integrated reporting quality                              | 0                   | 1         | 5         | 1    | 7     | 7.2         |
| IR disclosure index-based studies                         | 0                   | 0         | 3         | 3    | 6     | 6.2         |
| IR and Integrated Thinking                                | 0                   | 0         | 4         | 1    | 5     | 5.2         |
| Need of IR  | 0                   | 0         | 2         | 2    | 4     | 4.1         |
| IR in different organisational contexts                   | 1                   | 1         | 1         | 1    | 4     | 4.1         |
| Reporting templates                                       | 0                   | 1         | 0         | 0    | 1     | 1.0         |
| Analysis of the motivations/<br>explanatory factors of IR | 0                   | 0         | 0         | 0    | 0     | 0           |
| Total   | 1                   | 15        | 55        | 26   | 97    | 100.0       |

Overall, as shown in Table 3.4, IR studies represented by the 97 articles published in 29 ABDC accounting journals indicate a heavy emphasis (a 16.5%) on “how IR is perceived in the organisations” (Adams, Potter, Singh, & York, 2016; Adams, 2017; Atkins, Atkins, Thomson, & Maroun, 2015a; Atkins, Solomon, Norton, & Joseph, 2015b; Bouten & Hoozee, 2015; Briem & Wald, 2018; Coulson, Adams, Nugent, & Haynes, 2015; Gibassier, Rodrigue, & Arjaliès, 2018; Hsiao & Kelly, 2018; Lai, Melloni, & Stacchezzini, 2018; Maroun, 2018; McNally & Maroun, 2018; Simnett & Huggins, 2015; Vesty, Ren, & Ji, 2018) and “new internal mechanisms to facilitate IR” (14.4%) (Abhayawansa, Eljido-Ten, & Dumay, 2018; Beattie & Smith, 2013; Chaidali & Jones, 2017; Engelbrecht et al., 2018;

Gunarathne & Senaratne, 2017; Haji & Hossain, 2016; Humphrey, O'Dwyer, & Unerman, 2017; Lai, Melloni, & Stacchezzini, 2017; Maroun, 2017).

In the articles published, 13.4% include a discussion on “criticisms, implications and issues of IR” (Brown & Dillard, 2014; Cheng et al., 2014; Dumay, Bernardi, Guthrie, & La Torre, 2017; Flower, 2015; Kamp-Roelands, 2013; Owen, 2013a, 2013b; Rambaud & Richard, 2015; Ruiz, 2013; Sinnewe, 2017; Thomson, 2015).

One of the highly discussed IR research topics in the literature is the “adoption of IR”. Out of the sample, 12.4% of articles discuss this (Adhariani & de Villiers, 2018; Baboukardos & Rimmel, 2016; Garcia-Sanchez & Noguera-Gamez, 2018; Green & Cheng, 2018; Haji & Anifowose, 2016a, 2016b; Reuter & Messner, 2015; Wild & van Staden, 2013; Zinsou, 2018).

Furthermore, 8.2% of the accounting articles probe into the potential of IR as the new corporate reporting model and attempt to highlight the insights, gaps and future research on IR (Deegan, 2017; de Villiers et al., 2014; de Villiers et al., 2017a; de Villiers et al., 2017b; de Villiers & Sharma, 2020; Dumay et al., 2016; Lehman & Morton, 2017; Lodhia & Martin, 2012; McElroy & Thomas, 2015; Rinaldi, Unerman, & de Villiers, 2018).

In addition, 7.2% of the articles include a discussion on the “implementation of IR” (Higgins, Stubbs, & Love, 2014; Robertson & Samy, 2015; Rowbottom & Locke, 2016; Steyn, 2014a; Stubbs & Higgins, 2014; Tweedie & Martinov-Bennie, 2015; van Bommel, 2014) and IR quality (Arguelles, Balathat, & Green, 2015; Barth et al., 2017; Bernardi & Stark, 2018; Lee & Yeo, 2016; Setia et al., 2015; Stent & Dowler, 2015; Zhou et al., 2017) and 6.2% of the IR studies in accounting journals were IR disclosure index based studies (Kilic & Kuzey, 2018b; Melloni, Caglio, & Perego, 2017; Menicucci, 2018; Sukhari & de Villiers, 2018).

More specifically, 5.2% of the accounting articles appeared on “IR and integrated thinking” (Al-Htaybat & von Alberti-Alhtaybat, 2018; Dumay & Dai, 2017; Guthrie, Manes-Rossi, & Orelli, 2017; Oliver, Vesty, & Brooks, 2016; Venter, Stiglingh, & Smit, 2017). Despite the academic studies, professional and regulatory bodies, such as CGMA (2014, 2016), Deloitte (2015), IFAC (2015, 2017), IIRC (2016c, 2017a) and SAICA (2015), have focused

more on the integrated thinking agenda in some of their publications (see Appendix D and E). The cyclical power of integrated thinking and IR (IIRC, 2016c) and the SDGs integrated thinking and IR (IIRC, 2017a) are examples of IIRC's recent work on integrated thinking. IFAC has given special consideration to integrated thinking and the role of professional accountants (IFAC, 2015) and the role of integrated thinking in creating value for small and medium-sized enterprises (SMEs) (IFAC, 2017). Integrated thinking and reporting provide a way and additional incentive for CFOs, and their finance teams, to focus on the information and decisions that matter to the organisation and its potential success (IFAC, 2015). SAICA (2015) and Deloitte (2015) are the examples for the early publications on integrated thinking.

“The need for IR” has been discussed in 4.1% of the studies (Adams, 2015; Atkins & Maroun, 2018; Rupley, Brown, & Marshall, 2017; Tweedie, Nielsen, & Martinov-Bennie, 2018). These studies also call for academics to engage with the process and to contribute to the development of new forms of accounting to ensure the potential or the need for IR. Other researchers have also addressed the benefits of IR over traditional corporate reporting mechanisms, such as forward-looking information (Cheng et al., 2014; Higgins et al., 2014; Stubbs, Higgins, Milne, & Hems, 2014), consideration of crucial risks (Eccles & Krzus, 2010; Jensen & Berg, 2012), value creation through six types of capital (Adams, 2015; Barton & Wiseman, 2014), connectivity, long termism and inclusion of externalities and strategies (de Villiers et al., 2014; Eccles & Krzus, 2010; Jensen & Berg, 2012). We find that conference papers have focused on some key IR elements, such as internal IR and value creation (Doni & Gasperini, 2014), business models and IR (Aprile & Magnaghi, 2014) and materiality and IR (Aprile, 2014).

The role of IR for organisations other than for-profit organisations was the focus in 4.1% of the IR studies. For example, extending the potential of IR initiatives to non-for-profit (NFP) organisations (Adams & Simnett, 2011), to small and medium-sized enterprises (SMEs) (Baldo, 2017) and to public sector organisations (Guthrie et al., 2017; Ayoola & Olasanmi, 2013; Ghani, Jamal, Puspitasari, & Gunardi, 2018).

Only one article was found on the topic, ‘reporting template’ (Haller & van Staden, 2014). None of the IR articles were found in the research topic of “analysis of the explanatory

factors of IR” in ABDC-ranked accounting journals, as such articles have been published in the finance and management journals.

Table 3.5: Percentage of articles on IR published in finance/ management journals by topics

| Research Topic   | Finance/Management Journals |           |           |      | Total | % frequency |
|--|-----------------------------|-----------|-----------|------|-------|-------------|
|  | 2009-2011                   | 2012-2014 | 2015-2017 | 2018 |       |             |
| Adoption / Practice of IR                              | 1                           | 1         | 13        | 4    | 19    | 26.8        |
| Need of IR   | 1                           | 5         | 3         | 1    | 10    | 14.1        |
| Implementation of IR                                   | 0                           | 4         | 5         | 0    | 9     | 12.7        |
| New internal mechanism to facilitate IR                | 0                           | 3         | 4         | 1    | 8     | 11.3        |
| How IR is perceived in the organisations               | 0                           | 0         | 2         | 3    | 5     | 7.0         |
| Integrated reporting quality                           | 0                           | 1         | 4         | 0    | 5     | 7.0         |
| Criticisms, implications and issues                    | 1                           | 1         | 1         | 1    | 4     | 5.6         |
| Reporting templates                                    | 1                           | 2         | 0         | 0    | 3     | 4.2         |
| IR and Integrated Thinking                             | 0                           | 1         | 2         | 0    | 3     | 4.2         |
| Insights, gaps and future research                     | 0                           | 1         | 0         | 1    | 2     | 2.8         |
| IR in different organisational contexts                | 0                           | 0         | 1         | 0    | 1     | 1.4         |
| Analysis of the motivations/ explanatory factors of IR | 0                           | 0         | 1         | 0    | 1     | 1.4         |
| IR disclosure index-based studies                      | 0                           | 0         | 1         | 0    | 1     | 1.4         |
| Total  | 4                           | 19        | 37        | 11   | 71    | 100.0       |

As in Table 3.5, over a one-third of the articles (27%) published in finance/management journals were on the “adoption of IR” (Eccles et al., 2011; Garanina & Dumay, 2017; García-Sánchez, Martínez-Ferrero, & Garcia-Benau, 2018; Garcia-Sanchez & Noguera-Gamez, 2017a, 2017b; Gianfelici, Casadei, & Cembali, 2018; La Torre, Valentinetti, Dumay, & Rea, 2018; Serafeim, 2015; Sierra-García, Zorio-Grima, & García-Benau, 2015; Vaz, Fernandez-Feijoo, & Ruiz, 2016; Zappettini & Unerman, 2016). The IR studies published in finance and management journals have focused on the area of investors and

other stakeholders (Garcia-Sanchez & Noguera-Gamez, 2018; Rensburg & Botha, 2014; Serafeim, 2015;) and stakeholder engagement and IR (Fasan & Mio, 2017; Garcia-Sanchez & Noguera-Gamez, 2017a; Gianfelici et al., 2018; Sierra-Garcia et al., 2015).

The research topic, adoption of IR, is then followed by 10 articles (14%) within the focused area of “need for IR” (Barton & Wiseman, 2014; Eccles, 2010; Eccles, 2012; Eccles, Krzus, & Ribot, 2015a; Ewings, 2013; Hutton, 2016; King, 2013; Magarey, 2012). Interestingly, among this research on the need of IR, few studies (Rivera-Arrubla & Zorio-Grima, 2016; Alexander & Blum, 2016; Diplock, 2018) were found related to other disciplinary areas in ABDC ranked journals, such as Psychology and Marketing, Ecological Economics and Policy Quarterly.

The percentage of articles on the “implementation of IR” was 12.7% (Frias-Aceituno, Rodriguez-Ariza, & Garcia-Sanchez, 2013a; Garcia-Sanchez et al., 2013; Jensen & Berg, 2012; Lai, Melloni, & Stacchezzini, 2016; Lodhia, 2015; Lueg, Lueg, Andersen, & Dancianu, 2016; Maniora, 2017; Oshika & Saka, 2017).

From the total sample of articles, 11.3% of the IR research was observed in the area of “new internal mechanisms to facilitate IR” (Beck, Dumay, & Frost, 2017; Eccles, Krzus, & Ribbot, 2015b; Mmako & van Rensburg, 2017; Parrot & Tierney, 2012; Searcy & Buslovich, 2014; Strong, 2015; Stubbs & Higgins, 2018), and 7% of the IR research was on the two topics, “how IR is perceived in organisations” (Argento, Culasso, & Truant, 2018; Badia, Dicuonzo, Petruzzelli, & Dell’Atti, 2018; Burke & Clark, 2016; Trebucq & Magnaghi, 2017) and “IR quality” (Churet & Eccles, 2014; Fasan & Mio, 2017; Melloni, 2015; Mervelskemper & Streit, 2017; Pistoni, Songini, & Bavagnoli, 2018).

Similarly, 4.2% of the IR research was categorised under the two topics, “reporting templates for IR” (Abeysekara, 2013; Abhayawansa, 2014; Nicolaou, 2010) and “IR and integrated thinking” (Feng, Cummings, & Tweedie, 2017; Hoque, 2017; Knauer & Serafeim, 2014).

A few other IR studies have focused on “criticisms, implications and issues of IR” (Baret & Helfrich, 2018; Huggins, Simnett, & Hargovan, 2015; Rossouw, 2010; Welford, 2012) and “insights, gaps and future research” (Camilleri, 2018; Veltri & Nardo, 2013),

representing a percentage of 5.6% and 2.8%, respectively, in ABDC-ranked finance/management journals.

During the analysis, the present study could identify only one study in each of the IR research topics of “IR in different organisational contexts” (Veltri & Silvestri, 2015), “analysis of the explanatory factors of IR” (Buitendag, Fortuin, & de Laan, 2017) and “IR disclosure index–based studies” (Liu et al., 2018). Liu et al. (2018) in JIC also carry out an analysis and evaluation of IR by applying a disclosure index as a normative benchmark in five companies that are expected to be superior integrated reporters.

### **3.5.3 The research settings**

As depicted in Table 3.6, around 40% of the articles considered in the present study discuss IR in publicly listed companies, 22.7% of which use a qualitative research approach and 20.6% adopt a quantitative approach (methodological approach is discussed in detail in the next section), and more than 50% of these studies were published during the period from 2015 to mid-2018. In terms of the geographical location context, the majority of the IR studies discuss IR in the context of South Africa (Adams, 2017; Atkins & Maroun, 2015; Baboukardos & Rimmel, 2016; Barth et al., 2017; Bernardi, & Stark, 2018; du Toit, 2017; Engelbrecht et al., 2018; Haji & Anifowose, 2016a, 2016b; Lee & Yeo, 2016; Maroun, 2017, 2018; McNally et al., 2017; McNally & Maroun, 2018; Venter et al., 2017; Zhou et al., 2017).

Of the 97 published articles in accounting journals in Table 3.6, 12 studies (12.4%) were based on IIRC (Dumitru & Guse, 2017), IIRC pilot programme participants (Tweedie & Martinov-Bennie, 2015; Vetsy et al., 2018), IIRC industry/business network participants (Abhayawansa et al., 2018; Rowbottom & Locke, 2016) and on various IIRC commentaries and documentation analyses (Coulson et al., 2015; Humphrey et al., 2017; Oprisor, 2015b; Simnett & Huggins, 2015). For 5.2% of the IR studies, the research setting was based on accounting firms. These studies were carried out based on the auditors’ perspectives (Briem & Wald, 2018; Engelbrecht et al., 2018; Maroun, 2017, 2018).

Table 3.6 also shows that only 3.1% of the IR research was focused on the public sector (Ayoola, & Olasanmi, 2013; Ghani et al., 2018; Guthrie et al., 2017), small and medium



sector (Baldo, 2017; Dumay & Dai, 2017; Gibassier et al., 2018) and on mixed participants as well (Atkins & Maroun, 2015; Hsiao & Kelly, 2018; van Bommel, 2014). For example, van Bommel (2014) interviewed participants from the public sector, civil society, investment community, reporting firms, academics and professional firms; for Hsiao and Kelly (2018), it was 16 investors in Taiwan, and it was 20 experts in the South African institutional investment industry in Atkins and Maroun (2015). In an analysis of the research setting of the IR research, the present study could observe that only 1% of the studies have focused on non-listed companies (Silvestri et al., 2017) and the not-for-profit sector (Adams & Simnett, 2011). The “other” category remains as the highest frequency score, which includes the descriptive, conceptual and normative studies, comprising 27.8% of the total 97 articles.

Table 3.6: Percentage of articles on IR published in accounting journals by research settings

| Research Setting  | Accounting Journals |             |           |      | Total | % frequency |
|---|---------------------|-------------|-----------|------|-------|-------------|
|   | 2009-2011           | 2012 - 2014 | 2015-2017 | 2018 |       |             |
| Public listed companies– Qualitative studies                  | 0                   | 4           | 14        | 4    | 22    | 22.7        |
| Public listed companies – Quantitative studies                | 0                   | 1           | 12        | 7    | 20    | 20.6        |
| IIRC Industry Network/IIRC pilot programme/ IIRC doc analysis | 0                   | 0           | 8         | 4    | 12    | 12.4        |
| Accounting firms  | 0                   | 0           | 1         | 4    | 5     | 5.2         |
| Public sector companies                                       | 0                   | 1           | 1         | 1    | 3     | 3.1         |
| Small & medium sized companies                                | 0                   | 0           | 2         | 1    | 3     | 3.1         |
| Mixed participants  | 0                   | 1           | 1         | 1    | 3     | 3.1         |
| Non-listed companies  | 0                   | 0           | 1         | 0    | 1     | 1.0         |
| Not-for-profit organisations                                  | 1                   | 0           | 0         | 0    | 1     | 1.0         |
| Other   | 0                   | 8           | 15        | 4    | 27    | 27.8        |
| Total   | 1                   | 15          | 55        | 26   | 97    | 100.0       |

Similar to the accounting journals, the majority of the IR research (more than 60% in Table 3.7) published in finance/management journals has also focused on publicly listed companies as the research setting. Out of these, 42.2% were quantitative studies (for example, Buitendag et al., 2017; Churet & Eccles, 2014; Frías-Aceituno et al., 2013a, 2014; Garcia-Sanchez et al., 2018; Jensen & Berg, 2012) and 18.3% were qualitative studies (such as Eccles & Serafeim, 2014; Feng et al., 2017; Knauer & Serafeim, 2014; Lodhia, 2015; Mmako & van Rensburg, 2017; Searcy & Buslovich, 2014).

Table 3.7: Percentage of articles on IR published in finance/ management journals by research settings

| Research Setting  | Finance/Management Journals |           |           |      | Total | % frequency |
|---|-----------------------------|-----------|-----------|------|-------|-------------|
|   | 2009-2011                   | 2012-2014 | 2015-2017 | 2018 |       |             |
| Public listed companies – Quantitative studies                | 1                           | 5         | 19        | 5    | 30    | 42.2        |
| Public listed companies– Qualitative studies                  | 0                           | 4         | 7         | 2    | 13    | 18.3        |
| IIRC Industry Network/IIRC pilot programme/ IIRC doc analysis | 0                           | 0         | 4         | 0    | 4     | 5.6         |
| Public sector companies                                       | 0                           | 0         | 1         | 1    | 2     | 2.8         |
| Mixed participants  | 0                           | 1         | 1         | 0    | 2     | 2.8         |
| Accounting firms  | 0                           | 0         | 0         | 0    | 0     | 0.0         |
| Non-listed companies  | 0                           | 0         | 0         | 0    | 0     | 0.0         |
| Small & medium sized companies                                | 0                           | 0         | 0         | 0    | 0     | 0.0         |
| Not-for-profit organisations                                  | 0                           | 0         | 0         | 0    | 0     | 0.0         |
| Other   | 3                           | 9         | 5         | 3    | 20    | 28.2        |
| Total   | 4                           | 19        | 37        | 11   | 71    | 100.0       |

The articles based on the IIRC pilot study participants and IIRC business network participants carried a weight of 5.6% (Eccles et al., 2015b; Rivera-Arrubla, Zorio-Grima & García-Benau, 2017) and based on IIRC commentaries, documents and other materials (Burke & Clark, 2016). The public sector has been covered by 2.8% of the IR studies (Argento et al., 2018; Veltri & Silvestri, 2015), and some studies used mixed participants

(Strong, 2015; Stubbs et al., 2014). None of the studies published in finance and management journals have discussed IR in the context of accounting firms, non-listed companies, not-for-profit organisations and SMEs. Similar to accounting journals, the majority (48 out of 71) of these articles on IR were also published during the period from 2015 to mid-2018.

#### **3.5.4 The research methods**

The majority of the IR studies (29%) were conceptual or normative studies that did not discuss the research methods. Table 3.8 reveals that interviews as a research method (22.7%) was the most frequently used data collection method adopted by the IR scholars in accounting journals, thus leading to the conclusion that the majority (22.7%) of the IR studies featured in accounting journals used a qualitative research method using semi-structured interviews (for example, Adams, 2017; Atkins, Solomon, Norton, & Joseph, 2015b; Baldo, 2017; Beattie & Smith, 2013; Chaidali & Jones, 2017; Dumay & Dai, 2017; Guthrie et al., 2017; Higgins et al., 2014; Lai et al., 2018, 2017; Maroun, 2017, 2018; McNally et al., 2017; McNally & Maroun, 2018, Simnett & Huggins, 2015; Vesty et al., 2018); the documentation review (14.4%) of various external reports (annual reports, integrated reports, annual reviews, CSR/CR reviews, GRI reports, websites and other online materials) (Adams et al., 2016; Ayoola & Olasanmi, 2013; Eccles & Serafeim, 2014; Haji & Hossain, 2016); various IIRC-related reports, documents and commentaries (Coulson et al., 2015; Humphrey, O'Dwyer, & Unerman, 2014; Oprisor, 2015b; Simnett & Huggins, 2015); and other publicly available documents, such as newspaper articles, consultancy reports, IR speeches (Atkins et al., 2015a), investor statements and government reports) (Burke & Clark, 2016), in order to obtain an in-depth understanding of the adoption of IR in the organisational context.

Out of the 36 articles conducted using qualitative research methods of interviews (22) and documentation review (14), nearly half of them (15) were carried out as case studies, out of which some have been conducted as South African case studies (Ayoola, & Olasanmi, 2013; du Toit, van Zyl, & Schutte, 2017; Haji & Hossain, 2016; McNally & Maroun, 2018; Setia et al., 2015; Tweedie & Martinov-Bennie, 2015), as Italian cases (Baldo, 2017;

Giovannoni & Maraghini, 2013; Silvestri et al., 2017), as an Australian case study (Dumay & Dai, 2017), as a UK case study (Beattie & Smith, 2013), as a Belgian study (Bouten & Hoozee, 2015) and some others as multiple case studies (Adams et al., 2016; Macias & Farfan-Lievano, 2017).

Table 3.8 further shows that 17.5 % of studies used archival data analysis as a research methodology, which included data gathered through the UK FTSE 100 database, Thompson Reuters ASSET4, Bloomberg data, GRI database, Forbes global database and the IR emerging practice examples database. Archival document analysis was mainly based on the annual reports of the IR preparers and the analysis of the various IIRC commentaries and documents (Arguelles et al., 2015; Baboukardos & Rimmel, 2016; Bernardi, & Stark, 2018; Garcia-Sanchez & Noguera-Gamez, 2018; Haji & Anifowose, 2016b; Kilic & Kuzey, 2018a, 2018b; Melloni et al., 2017; Menicucci, 2018; Venter et al., 2017) of 17.5% as in Table 3.8. Archival data analysis mostly included 3.1% of the IR research articles that used surveys (Adhariani & de Villiers, 2018; Stent & Dowler, 2015; Steyn, 2014a) for collecting the data required for the study. For example, Stent and Dowler (2015) assess 2011 annual reports and related online reporting practices for four New Zealand ‘best practice reporting entities’, using an IR checklist. Whereas, in a conference paper, Herath and Gunarathne (2016) use a modified checklist of Stent and Dowler (2015) to assess the same gap in the Sri Lankan context. The survey in Adhariani and de Villiers (2018) is used to explore perspectives on IR.

A total of 10 articles (10.3% in Table 3.8) used a mixed methods approach, which used more than one research methodology, such as interviews, archival document analysis and survey methods (Gibassier et al., 2018; Gunarathne & Senaratne, 2017; Juma et al., 2018; Macias & Farfan-Lievano, 2017; Naynar, Ram, & Maroun, 2018; Reuter & Messner, 2015; Robertson & Samy, 2015; Rowbottom & Locke, 2016; Silvestri et al., 2017; van Bommel, 2014). For example, Naynar et al. (2018) use a mixed methods approach using a document analysis and a survey to explore the emphasis placed on certain IR themes by financial services companies and stakeholders. Further, 3.1% of the IR research was based on surveys (Stent & Dowler, 2015; Adhariani & de Villiers, 2018; Steyn, 2014a).

Table 3.8: Percentage of articles on IR published in accounting journals by research methods used

| Research Method               | Accounting Journals |           |           |      | Total | % frequency |
|-------------------------------|---------------------|-----------|-----------|------|-------|-------------|
|                               | 2009-2011           | 2012-2014 | 2015-2017 | 2018 |       |             |
| Interview method              | 0                   | 4         | 10        | 8    | 22    | 22.7        |
| Archival: Data analysis       | 0                   | 0         | 11        | 6    | 17    | 17.5        |
| Archival: Document analysis   | 0                   | 1         | 10        | 3    | 14    | 14.4        |
| Mixed methods                 | 0                   | 1         | 6         | 3    | 10    | 10.3        |
| Survey                        | 0                   | 1         | 1         | 1    | 3     | 3.1         |
| Behavioural experiment        | 0                   | 0         | 0         | 1    | 1     | 1.0         |
| Participation and Observation | 0                   | 0         | 1         | 0    | 1     | 1.0         |
| Action research               | 0                   | 0         | 1         | 0    | 1     | 1.0         |
| Analytic model                | 0                   | 0         | 0         | 0    | 0     | 0           |
| Other                         | 1                   | 8         | 15        | 4    | 28    | 28.9        |
| Total                         | 1                   | 15        | 55        | 26   | 97    | 100.0       |

Only 1% of the articles were found using the behavioural experiment method (Green & Cheng, 2018), participation and observation (Bouten & Hoozee, 2015) and action research (Atkins et al., 2015a).

In contrast to the accounting journals where the majority (23%) has used the interview method in qualitative methodology, the majority (36.6%) of the IR studies published in the finance/management journals have used quantitative research methods (Table 3.9). The most frequently used research method was archival data analysis (for example, Buitendag et al., 2017; Churet & Eccles, 2014; Eccles et al., 2011; Fasan & Mio, 2017; Frías-Aceituno et al., 2014; Garanina & Dumay, 2017; Garcia-Sanchez et al., 2018; Jensen & Berg, 2012; Maniora, 2017; Melloni, 2015; Melloni, Stacchezzini, & Lai, 2016; Oshika & Saka, 2017; Rivera-Arrubla et al., 2017; Rivera-Arrubla & Zorio-Grima, 2016; Serafeim, 2015; Sierra-Garcia et al., 2015; Vaz et al., 2016; Zappettini & Unerman, 2016).

As shown in Table 3.9, 12.7% of the IR scholars have used the interview method and the documentation review. Notably, all of these interview-based studies were presented as case studies (Argento et al., 2018; Badia et al., 2018; Beck et al., 2017; Burke & Clark, 2016; Healey, 2013; Lodhia, 2015; Lueg et al., 2016; Searcy & Buslovich, 2014). In terms of the IR research that accounted for archival document analysis, many of the studies were based on the analysis of the various external reports (annual reports, integrated reports, annual reviews) of particular organisations (Albertini, 2018; Eccles & Serafeim, 2014; Knauer & Serafeim, 2014; Lipunga, 2015; Mmako & van Rensburg, 2017; Parrot & Tierney, 2012; Trebucq & Magnaghi, 2017; Veltri & Silvestri, 2015). Out of these, it was noted that the majority are presented as case studies, for example, case studies in Italy (Badia et al., 2018; Argento et al., 2018), in Australia (Lodhia, 2015; Healey, 2013; Beck et al., 2017), in Ireland (Knauer & Serafeim, 2014), in USA (Parrot & Tierney, 2012), in Denmark (Lueg et al., 2016) and in South Africa (Veltri & Silvestri, 2015).

Table 3.9: Percentage of articles on IR published in finance/ management journals by research methods used

| Research Method               | Finance/Management Journals |           |           |      | Total | % frequency |
|-------------------------------|-----------------------------|-----------|-----------|------|-------|-------------|
|                               | 2009-2011                   | 2012-2014 | 2015-2017 | 2018 |       |             |
| Archival: Data analysis       | 1                           | 3         | 18        | 4    | 26    | 36.6        |
| Interview method              | 0                           | 2         | 5         | 2    | 9     | 12.7        |
| Archival: Document analysis   | 0                           | 2         | 5         | 2    | 9     | 12.7        |
| Analytic model                | 0                           | 2         | 2         | 0    | 4     | 5.6         |
| Mixed methods                 | 0                           | 0         | 2         | 0    | 2     | 2.8         |
| Survey                        | 0                           | 1         | 0         | 0    | 1     | 1.4         |
| Behavioural experiment        | 0                           | 0         | 0         | 0    | 0     | 0.0         |
| Participation and Observation | 0                           | 0         | 0         | 0    | 0     | 0.0         |
| Action research               | 0                           | 0         | 0         | 0    | 0     | 0.0         |
| Other                         | 3                           | 9         | 5         | 3    | 20    | 28.2        |
| Total                         | 4                           | 19        | 37        | 11   | 71    | 100.0       |

With regard to methodological approaches, 5.6% of the IR studies used quantitative analysis as a research methodology for exploring explanatory factors of IR (Frías-Aceituno et al., 2013a; Garcia-Sanchez & Noguera-Gamez, 2017a, 2017b; Garcia-Sanchez et al., 2013). This study also finds that 2.8% of IR studies published in finance/management journals used mixed methods as the research methodology, which included both interviews and document analysis (Beck et al., 2017; Lueg et al., 2016).

Out of the total 71 articles in finance/management journals, only one article was found on the survey method (Rensburg & Botha, 2014). They used a national online survey in South Africa and obtained 421 responses relating to the stakeholders' perspectives of financial communication.

None of the articles were found to be based on behavioural experiment, participation and observation and action research. In a conference paper, using an experimental study of mainstream investment professionals in Europe, Arnold, Bassen, and Frank (2012) investigate whether financial statement users asymmetrically anchor their financial value judgements when assessing environmental, social and governance (ESG) information provided in a standalone report.

The “other” category includes the descriptive or conceptual IR studies that accounted for 28% of the total articles.

Table 3.10: Re-classification of IR research based on ‘research methods’

| Re-classification of research methods | ABDC Journals    |                           | Total |
|---------------------------------------|------------------|---------------------------|-------|
|                                       | Accounting Field | Finance/management Fields |       |
| Conceptual Studies                    | 28               | 20                        | 48    |
| Empirical Studies                     |                  |                           |       |
| Qualitative                           | 44               | 19                        | 63    |
| Quantitative                          | 25               | 32                        | 57    |
| Total                                 | 97               | 71                        | 168   |

Looking more closely into the review of past studies, especially under the classification of ‘research methods’, the distinct nature of the studies can be re-classified into two, namely, normative/conceptual IR research and empirical IR research. This classification of the literature of IR has also been used by Dumay et al. (2016) and Haji and Hossain (2016) and the results of both studies revealed that the majority of the IR studies are normative in nature and relatively fewer studies have examined IR empirically. However, this is contrary to the present study review results, which provide evidence of more empirical IR studies (a total of 120) comparative to the conceptual or normative studies (of 48) of IR (See Table 3.10).

As in Table 3.10, in terms of the IR research in ABDC accounting journals, 28 articles out of 97 were developed as conceptual or normative studies, whereas 44 articles were developed based on the qualitative methodology and the remaining 25 were based on the quantitative methodology. With respect to the IR research in ABDC finance/management journals, 20 articles out of 71 were developed as conceptual or normative studies, whereas 21 articles were developed based on the qualitative methodology. Nearly half of the finance/management journals (33) were based on the quantitative methodology, of which the majority were on the adoption/practice of IR. And it was also found that the majority of these articles, 81 in accounting journals and 48 in finance/management journals were published after 2015. Consequently, having found more empirically examined IR studies in practice rather than the conceptual studies of IR, the present study results are in contrast to the research findings at a very early stage of the IR agenda, which stated that there is a dearth of empirical academic research on how companies prepare integrated reports or the content of integrated reports (de Villiers et al, 2014; Dumay et al., 2016; Haji & Hossain, 2016).

### **3.5.5 The data analysis techniques**

As shown in Table 3.11, qualitative analysis of interview data was the most widely utilised data analysis method (18.5% of 97 articles) by IR papers published in accounting journals, followed by content analysis of archival data (13.4%). Other methods included narrative and poetic analysis (Higgins et al., 2014), auto-ethnographic approach (Atkins et al.,



2015a), longitudinal ethnographic approach (Gibassier et al., 2018), narrative analysis (Lai et al., 2018) and personal narrative analysis (Vesty et al., 2018). Empirical studies on IR used quantitative data analysis to study explanatory factors impacting the adoption of IR reporting by organisations (Arguelles et al., 2015; Barth et al., 2017; Garcia-Sanchez & Noguera-Gamez, 2018; Melloni et al., 2017; Menicucci, 2018; Romolini, Fissi, & Gori, 2017; Setia et al., 2015; Sukhari & de Villiers, 2018; Zhou et al., 2017; Zinsou, 2018) and ANOVA of 14.4% (Adhariani & de Villiers, 2018; Green & Cheng, 2018; Haji & Anifowose, 2016a, 2016b), and descriptive statistics and correlation of 9.3% (Bernardi & Stark, 2018; du Toit, 2017; Lee & Yeo, 2016; Venter et al., 2017).

Table 3.11: Percentage of articles on IR published in accounting journals by primary data analysis technique

| Primary data analysis technique      | Accounting Journals |           |           |      | Total | % frequency |
|--------------------------------------|---------------------|-----------|-----------|------|-------|-------------|
|                                      | 2009-2011           | 2012-2014 | 2015-2017 | 2018 |       |             |
| <b>Qualitative</b>                   |                     |           |           |      |       |             |
| Content analysis of interview data   | 0                   | 3         | 10        | 5    | 18    | 18.5        |
| Content analysis of documents review | 0                   | 1         | 11        | 1    | 13    | 13.4        |
| <b>Quantitative</b>                  |                     |           |           |      |       |             |
| Regression/ANOVA                     | 0                   | 0         | 6         | 8    | 14    | 14.4        |
| Descriptive statistics/Correlations  | 0                   | 1         | 6         | 2    | 9     | 9.3         |
| <b>Mixed methods</b>                 | 0                   | 1         | 6         | 3    | 10    | 10.3        |
| Other tools                          | 0                   | 1         | 1         | 3    | 5     | 5.2         |
| Nil                                  | 1                   | 8         | 15        | 4    | 28    | 28.9        |
| Total                                | 1                   | 15        | 55        | 26   | 97    | 100.0       |

As shown in in Table 3.11, 10 articles (10.3%) used the mixed method approach that combines more than one data analysis method (Al-Htaybat & Alberti-Alhtaybat, 2018; Gibassier et al., 2018; Gunarathne & Senaratne, 2017; Juma et al., 2018; Macias & Farfan-Lievano, 2017; Naynar et al., 2018; Reuter & Messner, 2015; Robertson & Samy, 2015; Rowbottom & Locke, 2016; Silvestri et al., 2017; van Bommel, 2014). Using both

qualitative and quantitative data analysis methods, Reuter and Messner (2015) examine the characteristics of lobbying parties and the determinants of their lobbying behaviour in the formal participation in the early phase of the IIRC's standard setting. Using hypothesis testing, those authors found that comment letters toward the IIRC's discussion paper were mainly written by large multinational firms (as opposed to small and medium-sized ones) and by preparers (as opposed to users), and the complementary qualitative content analysis reveals that the concerns on the scope of the audience of IR, issues of materiality and the relationship between IR and other existing reporting frameworks would differ from the respondents' voice (Reuter & Messner, 2015). Moreover, a significant number of articles (28.9%) that were primarily of a review or commentary nature made no reference to the data analysis method, as they were developed as conceptual studies.

Table 3.12: Percentage of articles on IR published in finance/management journals by primary data analysis technique

| Primary data analysis technique      | Finance/Management Journals |           |           |      | Total | % frequency |
|--------------------------------------|-----------------------------|-----------|-----------|------|-------|-------------|
|                                      | 2009-2011                   | 2012-2014 | 2015-2017 | 2018 |       |             |
| <b>Qualitative</b>                   |                             |           |           |      |       |             |
| Content analysis of interview data   | 0                           | 2         | 5         | 2    | 9     | 12.7        |
| Content analysis of documents review | 0                           | 2         | 5         | 1    | 8     | 11.3        |
| <b>Quantitative</b>                  |                             |           |           |      |       |             |
| Descriptive statistics/Correlations  | 1                           | 2         | 8         | 3    | 14    | 19.7        |
| Regression/ANOVA                     | 0                           | 2         | 9         | 2    | 13    | 18.3        |
| <b>Mixed methods</b>                 | 0                           | 0         | 2         | 0    | 2     | 2.8         |
| Other tools                          | 0                           | 2         | 3         | 0    | 5     | 7.0         |
| Nil                                  | 3                           | 9         | 5         | 3    | 20    | 28.2        |
| Total                                | 4                           | 19        | 37        | 11   | 71    | 100.0       |

As shown in Table 3.12, in terms of data analysis techniques, we find that finance and management journals also follow the same trend as the articles published in accounting

journals. Similar to the papers published in accounting journals, 24% of the papers published in finance and management journals used qualitative analysis of the interview data and content analysis of archival data as their research technique for analysing data for this study. The majority of studies (38%) published in finance and management journals used quantitative techniques to analyse data collected for their studies (Buitendag et al., 2017; Churet & Eccles, 2014; Eccles et al., 2011; Gianfelici et al., 2018; Haji & Anifowose, 2017; Jensen & Berg, 2012; La Torre et al., 2018; Liu et al., 2018; Melloni, 2015; Melloni et al., 2016; Oshika & Saka, 2017; Pistoni et al., 2018; Rivera-Arrubla et al., 2017; Serafeim, 2015; van Zijl, Wöstmann, & Maroun, 2017; Vaz et al., 2016). The study also finds that around 28% of the studies made no reference to the data analysis technique, as these studies were conceptual papers written on IR.

Other analytical models added up to 7% of 71 articles which were based on quantitative econometric-panel data models (Frías-Aceituno et al., 2013a; Garcia-Sanchez & Noguera-Gamez, 2017a, 2017b; Garcia-Sanchez et al., 2013) and qualitative discourse analysis (Zappettini & Unerman, 2016). Two articles were based on mixed methods (Beck et al., 2017; Lueg et al., 2016) combining both qualitative and quantitative data analysis techniques.

### **3.5.6 The research theories**

This section attempts to answer one of the leading research questions raised by Jensen and Berg (2012), namely, whether any of the other commonly used theories (other than the institutional theory used by them) are able to explain IR activity. We find that the IR papers published in accounting, finance and management journals have used a number of accounting and management theories: institutional theory, stakeholder theory, agency theory, legitimacy theory, signalling theory, diffusion of innovation theory, practice theory, impression management theory, political cost theory and proprietary cost theory (see Table 3.13). These different theoretical perspectives provide useful insights into understanding the integration, interaction, interpretations, implications and constraints among various aspects of IR.

Affirming the multiple use of the theories in business sustainability research, Rezaee (2016) draws on the fact that theories are interrelated and compatible, and thus individually and collectively address different dimensions of sustainability performance in creating stakeholder value. Corresponding to this, the use of more than one theory in several IR studies concerned in the present review has resulted in 116 IR studies in accounting journals and 91 in finance/management journals (Table 3.13). Out of the 116 accounting IR studies, 48 (42.2%) engaged with a wide range of well-reputed theories. Half (50%) of the studies (58) were silent about their theoretical foundation, whereas 10 studies (7.8%) claimed to use various other theories (such as Bourdieu's theory of practice, information asymmetry theory, Jensen's theory of enlightened value maximisation in 2001, Sztompka's 1999 theory, Lauglin's 1991 theory of organisational change), models (Boltanski & Thévenot's 1991, 2006 economies of worth/EW, Sutton's 1984 rational-choice model of lobbying) and frameworks (Bruner's, 1986, 1990, 1991 functionalist approach, 'sociology of worth/SOW' framework, Hofstede's national cultural framework), without acknowledging any explicit theoretical base. Of the 91 finance/management studies, nearly half (46 studies at 50.5%) were based on a wide range of theories, as shown in Table 3.13. While only 2 finance/management studies were based on various other models and frameworks (Jensen's theory of enlightened value maximisation, Hofstede's national cultural system and EFQM Model), 43 studies (47.3%) were silent on the theoretical orientation (Table 3.13).

As shown in Table 3.13, while the stakeholder theory (13.2%) was the most widely utilised theory in the finance and management journals, the institutional theory (9.5%) was heavily used in the accounting journals.

These studies are discussed in detail in Chapter 4—Theory.

Table 3.13: Percentage of IR articles published in accounting, finance and management journals by research theory

| Research Theories              | Accounting Journals |           |           |      | Total | % frequency | Finance/Management Journals |           |           |      | Total | % frequency |
|--------------------------------|---------------------|-----------|-----------|------|-------|-------------|-----------------------------|-----------|-----------|------|-------|-------------|
|                                | 2009-2011           | 2012-2014 | 2015-2017 | 2018 |       |             | 2009-2011                   | 2012-2014 | 2015-2017 | 2018 |       |             |
| Stakeholder theory             | 0                   | 1         | 3         | 1    | 5     | 4.3         | 0                           | 4         | 6         | 2    | 12    | 13.2        |
| Institutional theory           | 0                   | 1         | 6         | 4    | 11    | 9.5         | 0                           | 1         | 2         | 1    | 4     | 4.4         |
| Agency theory                  | 0                   | 0         | 2         | 3    | 5     | 4.3         | 0                           | 1         | 5         | 2    | 8     | 8.8         |
| Legitimacy theory              | 0                   | 0         | 6         | 1    | 7     | 6.0         | 0                           | 0         | 6         | 0    | 6     | 6.6         |
| Signalling theory              | 0                   | 0         | 2         | 1    | 3     | 2.6         | 0                           | 1         | 3         | 1    | 5     | 5.5         |
| Political cost theory          | 0                   | 0         | 0         | 0    | 0     | 0.0         | 0                           | 1         | 1         | 0    | 2     | 2.2         |
| Theory of proprietary costs    | 0                   | 0         | 0         | 0    | 0     | 0.0         | 0                           | 1         | 1         | 1    | 3     | 3.3         |
| Impression management theory   | 0                   | 0         | 3         | 0    | 3     | 2.6         | 0                           | 0         | 2         | 0    | 2     | 2.2         |
| Diffusion of innovation theory | 0                   | 0         | 2         | 2    | 4     | 3.4         | 0                           | 0         | 0         | 0    | 0     | 0.0         |
| Resource dependency theory     | 0                   | 0         | 0         | 0    | 0     | 0.0         | 0                           | 0         | 0         | 1    | 1     | 1.1         |
| Voluntary disclosure theory    | 0                   | 0         | 3         | 0    | 3     | 2.6         | 0                           | 0         | 0         | 0    | 0     | 0.0         |
| Practice theory                | 0                   | 0         | 0         | 1    | 1     | 0.9         | 0                           | 0         | 1         | 0    | 1     | 1.1         |
| Actor network theory           | 0                   | 0         | 1         | 0    | 1     | 0.9         | 0                           | 0         | 1         | 0    | 1     | 1.1         |
| Finance theory                 | 0                   | 0         | 1         | 0    | 1     | 0.9         | 0                           | 0         | 0         | 0    | 0     | 0.0         |
| Positive accounting theory     | 0                   | 0         | 1         | 0    | 1     | 0.9         | 0                           | 0         | 0         | 1    | 1     | 1.1         |
| Systems theory                 | 0                   | 0         | 1         | 0    | 1     | 0.9         | 0                           | 0         | 0         | 0    | 0     | 0.0         |
| Resilience theory              | 0                   | 0         | 1         | 0    | 1     | 0.9         | 0                           | 0         | 0         | 0    | 0     | 0.0         |
| Economic theory                | 0                   | 1         | 0         | 0    | 1     | 0.9         | 0                           | 0         | 0         | 0    | 0     | 0.0         |
| Other                          | 0                   | 3         | 2         | 5    | 10    | 7.8         | 0                           | 1         | 1         | 0    | 2     | 2.2         |
| None                           | 1                   | 12        | 30        | 15   | 58    | 50.0        | 4                           | 16        | 16        | 7    | 43    | 47.3        |
| Total                          |                     |           |           |      | 116   | 100.0       |                             |           |           |      | 91    | 100.0       |

### **3.6 In-depth analysis of existing IR research**

In addition to reviewing research published in peer-reviewed academic journals and professional reports, the second stage of the review includes IR articles published in other/non-ABDC academic journals as well (Appendix C).

This section of the LR approach is carried out as a concept-centric literature review (Webster & Watson, 2002) in which concepts determine the organising framework of a review and synthesize the literature as to how past academic and professional research has contributed to reform IR as the norm of corporate reporting. The IIRC and other professional institutes' publications show that the most recent development in IR is much more than the mere discussion of IR as a concept and the IR framework, but rather it focuses on areas such as sustainable long-term value creation (IIRC, 2017a; IFAC, 2018), leadership in IR (IIRC, 2017f; ACCA, 2018d; AICPA & CIMA, 2017), board perspectives and insights of IR (IRC SA, 2017; Black Sun & AICPA, 2018), investor perspectives of IR (IIRC, 2017b, 2017d; EY, 2017, PWC, 2016), technology and IR (IIRC, 2017c, 2018a), IR implementation guidelines (IRC SA, 2018a, 2018b; IFAC, 2017, 2017b; ACCA, 2017a, 2018a; CASL & IRC SL, 2015, 2017), and feedback reports on IR (IIRC, 2017c, 2017g).

This section of the LR approach is organised under three themes in three sub-sections. The first section provides the rationale for IR by emphasising the shortcomings of traditional corporate reporting. The first theme provides the prominent reasons for the evolution of IR as a concept and its ability to address and overcome the shortcomings and criticisms of traditional corporate reporting (in section 3.6.1). The second section discusses the normative or conceptual studies on IR, under six research topics borrowed from the first stage of analysis of LR approach, namely, analysis of the need of IR, insights, gaps and future research on IR, reporting templates to existing IR guidelines, implications, issues and critical aspects of IR, IR in different organisational contexts and integrated thinking (in section 3.6.2). The empirical research on IR is reviewed under the third section (in section 3.6.3).

#### **3.6.1 Shortcomings of traditional corporate reporting (TCR) and the rise of IR**

A number of studies have concluded that traditional financial reporting is not without its critics (Adams et al., 2016; Cheng et al., 2014; Eccles et al., 2010; Eccles & Serafeim, 2011; Ruiz-Lozano & Tirado-Valencia, 2016; Stubbs et al., 2014). This view is shared by some other researchers (Adams & Simnett, 2011; Adams et al., 2011; Eccles & Krzus, 2010; Stubbs et al.,

2014), arguing that the disclosure gap still remains due to the extensive, complex, disorderly and overlapping set of disconnected information provided through traditional financial reporting. Adams and Simnett (2011) claimed that the length, complexity and regulatory burden of existing reporting requirements and a lack of responsiveness to new value drivers and a changing business context are the two key issues in traditional forms of financial reporting.

Some other researchers have come across issues relating to the notion of the retrospective nature of information provided (Adams & Simnett, 2011; Cheng et al., 2014), short-term performance (Cheng et al., 2014) and for its lack of adequate disclosure regarding risks and uncertainty (Eccles & Krzus, 2010; Jensen & Berg, 2012) in traditional financial reporting. Jensen and Berg (2012) elaborated that TCR is retrospective and does not present future targets and crucial risks that may become relevant in the future and further identified that management of such future targets and risks is one of the major challenges for every company. As noted by Adams and Simnett (2011), backward-looking financial information does not meet the information needs of some shareholders and other stakeholders who are also concerned with the future goals, expectations and strategies of organisations in today's business context.

Consequently, researchers have provided evidence that many companies found that traditional financial reporting was not substantial and adequate to accomplish diverse stakeholder demands with different information needs arising with the growing business complexity and the globalised business environment, which has increasingly called for a response to the demands of investors and other stakeholders for more extensive non-financial information regarding environmental, social and governance aspects of organisation's activities (Abeysekera, 2013; Adams & Simnett, 2011; Caraianni, Lungu, Dascalu, Cimpoeu, & Dinu, 2012; Eccles & Saltzman, 2011; Eccles et al., 2011; Krzus, 2011; Ruiz-Lozano & Tirado-Valencia, 2016; Setiawan, 2016; Stacchezzini, Melloni, & Lai, 2016; Turturea, 2015; Wild & van Staden, 2013). For an example, Eccles and Saltzman (2011) stated that to understand the long-term prospects of companies, it is necessary to supply financial and non-financial information on their tangible and intangible capitals, which would lead to a holistic approach on the organisation's reporting and that the interrelationship between these capitals generates the necessary capabilities to create value and meet future challenges.

Some international organisations like the European Union (EU), professional organisations (e.g. ACCA, 2011; IMA & ACCA, 2016) and accounting firms (e.g. Deloitte, 2015; KPMG,

2011, 2012; PWC, 2011, 2012) have also identified sustainability as a crucial issue in the current context of international financial crisis. The European Union (EU) has stated that socially responsible companies could contribute to the goals of sustainable, intelligent and inclusive growth for 2020, and that this disclosure of information is key to identifying material risks and improving public confidence in EU companies (EC, 2019). In response to the challenging and timely issues and demands of the diverse stakeholders, including social, environmental and governance challenges (Adams & Simnett, 2011), some researchers have found that companies disclose non-financial disclosures by means of stand-alone sustainability reports, environmental reports, corporate social responsibility reports and triple-bottom line reports (Cheng et al., 2014; Eccles & Krzus, 2010; Jensen & Berg, 2012) while others provide such information within their annual reports (Cheng et al., 2014; Simnett, 2012). On the other hand, in terms of the corporate governance disclosure practices, Khoza (2002) has shown that the tick-box compliance has been a shortcoming for many decades and advocated that the commitment to communicate, be transparent, and act in a responsible and ethical manner should come from an underlying integrity and value system, rather than just the notion of compliance with a tick-box mentality.

However, despite the growing interest and the value relevance in reporting on sustainability, several scholars and studies claimed that its implementation is not free of difficulties (Adams & Simnett, 2011; Adams et al., 2011; Eccles & Krzus 2010; Cheng et al., 2014; IIRC, 2011; KPMG & FERF, 2011; Ruiz-Lozano & Tirado-Valencia, 2016; Stubbs et al., 2014). Absence of standards to regularize the non-financial information (Eccles et al., 2012; Sierra-Garcia et al., 2015) and the overwhelming amount of information (Adams & Simnett, 2011; Cheng et al., 2014) were often regarded as the significant barriers in integrating sustainability information in the financial reports. Adams et al. (2011) and the IIRC (2011) discussed how sustainability-related risks along with IR improves organisational strategic decision-making and resource allocation decisions through consideration of non-financial and longer-term performance indicators.

In a survey, KPMG and FERF (2011) revealed the fact that sustainability reports reach up to 200 pages in length, and hence the usefulness of the provided information is often diminished and also found that the financial and non-financial reports are not provided in a manner which facilitates stakeholder understanding of the company. Confirming this, Adams and Simnett (2011) noted that there is no integration or correspondence between sustainability and financial information because most sustainability reports are usually presented in a document distinct



from the annual report. Sharing the same argument, Stubbs et al. (2014) identified that mostly sustainability disclosure aspects are reported as supplements to traditional annual reports, and thus key disclosure gaps remained due to the clear mismatch between the desire for information (information required by the providers of financial capital and other stakeholders and information supplied by the companies) and what is being provided by companies in the form of stand-alone sustainability reports or CSR and/or governance reports along with the annual financial reports.

In a similar line of research, Jensen and Berg (2012) claimed that this sustainability reporting takes place mostly in the form of an addendum to traditional financial reports and that separated reporting of financial and non-financial aspects would make sense if they occurred independently in the company. However, they further highlighted that financial and non-financial aspects are interrelated when corporate social and environmental reporting is actually incorporated into the strategy.

Confirming these issues, IIRC (2011) and Financial Reporting Council and Accounting Standards Board (FRC, 2011) stated that it is not enough to keep on adding more information, but the connection needs to be made clear and the clutter needs to be removed. FRC (2011) further stated that length and excessive detail can obscure critical information rather than adding value. IIRC (2011) further stressed the fact that critical consequences and interdependencies exist if additional information in corporate reports was not clear on the organisation's strategy and risks, financial and non-financial performance, governance and performance and the organisation's own performance and that of others in its value chain.

Therefore, in order to make more clear connections between financial and non-financial information, an integrated and holistic approach was needed towards organisations' corporate reporting practices. As result, IR has evolved as the latest development in corporate reporting reform, paving a way to overcome the challenging obstacles of TCR while improving the efficacy of the corporate reporting norms. A rising number of academics (Abeysekara, 2013; Adams et al. 2011; Adams & Simnett, 2011; Eccles & Krzus, 2010; Eccles et al., 2012), audit firms (KPMG, 2011, 2012; PWC, 2011), professional accounting organisations (SAICA, 2010), regulatory bodies (IRC, SA, IIRC), interest groups (AccountAbility, A4S, GRI), stock exchanges (JSE) and companies (NovoNordisk) have also advocated publication of one report that comprises both financial and non-financial information and which additionally presents a more holistic picture of the business, including future targets and links between financial and

non-financial performance of companies. For Eccles and Krzus (2010), IR integrates financial, social and environmental information into a single report for stakeholders in a format that is concise, clearly expressed, consistent and comparable. The key characteristic itself emphasises the significance of IR and makes IR beneficial over TCR. This has clearly been addressed in Stubbs et al. (2014), who showed separately the pre-IR and post-IR scenarios to represent the issues emerging within TCR and how those have been able to manage with the benefits and outcomes of IR.

Past research provides evidence for these benefits of IR, as IR is future-oriented and reflects the interconnections between the financial and non-financial performance factors (Higgins et al., 2014; Stubbs et al., 2014) over short, medium and long-term time frames (Cheng et al., 2014), and further, IR positions as a consolidated approach and presents a more holistic view of corporate performance (Stubbs et al., 2014) combining different reporting methods such as voluntary sustainability reports and the annual reports (Rowbottom & Locke, 2016). Unlike TCR which adopts a backward-looking mechanism to reflect on past transactions and events, IR rather adopts more forward-looking information through considering short, medium and long-term time frames and through an integrated report, and so stakeholders would be provided with valuable information regarding the ability of the company to survive in the future, since key opportunities and risks are being identified and reported through an integrated report (Cheng et al., 2014).

Baret and Helfrich (2018) discussed the possibility that the IR can be an ‘optimal’ solution between the three categories of possible pitfalls in non-financial reporting, namely, idealistic reporting, lay reporting or technical reporting and the limits of this possibility. Their argument for the possible pitfalls was based on the ‘trilemma of non-financial reporting’ which shows that the non-financial reporting tool collides with a nexus of constraints: the constraint linked to the complexity, the irreducibility and the scalability of corporate social responsibility, the constraint linked to inherent stakes of non-financial reporting and the constraint linked to company expectations. The optimal solution was forwarded by IIRC in December 2013 as the international IR framework, proclaiming that companies need to provide a clear link between the financial and non-financial disclosures in a way that allows stakeholders to assess the on-going future performance of the companies by producing an integrated report, which results through a process of IR.

In order to assist organisations with the process of IR and while developing a common agenda for communicating the process of value creation by companies, this IR framework was expected to reinforce the connections between an organisation's strategy, governance, performance and prospects and also provide a clear link between financial and non-financial information in a single, separate report. Sharing a similar view regarding the connectivity of information in corporate reporting, some academic researchers (Adams & Simnett, 2011; Eccles & Krzus, 2010; Eccles & Serafeim, 2011) confirmed that the use of a framework facilitates connections between financial and non-financial information and contributes to sustainable value creation, which in turn would help businesses to take sustainable decisions and enable investors and other stakeholders to understand how an organisation is really performing. Eccles and Krzus (2010) asserted that IR integrates financial, social and environmental information into a single report for stakeholders in a format that is concise, clearly expressed, consistent and comparable. EY, one of the leading accounting firms, has described IR in its 2012 publication, as a process of reporting that provides context to financial and non-financial information and goals which connects strategies with the organisation's commitment to the long-term stewardship of material environmental, social and economic aspects. A further point of differentiation of IR from TCR is that IR is a process founded on integrated thinking, which has been elaborated in the previous chapter.

Having identified how IR has evolved as a new corporate reporting mechanism by being able to overcome the shortcomings and criticism of traditional corporate reporting, the next sections review the existing IR literature carried out so far, presented under two strands: conceptual research of IR and empirical research of IR.

### **3.6.2 Normative/conceptual studies of IR**

This section discusses the conceptual or normative studies of IR, under six sub-topics as: need of IR, insights, gaps and future research on IR, reporting templates to existing IR guidelines, implications, issues and critical aspects of IR, IR in different organisational contexts and integrated thinking.

#### ***Need of IR***

One sub-stream of normative studies addresses the *need of IR* and calls for researchers to engage with the process and to contribute to the development of new forms of accounting to ensure the potential or the need towards IR. Evidence was found in academic journals (Adams,

2015; Adams et al., 2016; Alexander & Blum, 2016; Atkins & Maroun, 2018; Diplock, 2018; Eccles, 2010; Eccles, 2012; Eccles et al., 2015a; Ewings, 2013; Hutton, 2016; Inge, Jens, & Natalia, 2014; Jhunjhunwala, 2014; King, 2013; Magarey, 2012; Maas, Schaltegger, & Crutzen, 2016; Rupley et al., 2017; Soyka, 2013; Tweedie et al., 2018), magazines (Busco et al., 2013a; Dzinkowski, 2015; Eccles & Armbrestor, 2011; Eccles & Krzus, 2010; Eccles & Saltzman, 2011; Efrat, 2015; Krzuz, 2011; Monterio, 2013; Muray, 2013; Phillips, Watson, & Willis, 2011), and books and book chapters (Adams et al., 2011; Busco, Frigo, Riccaboni, & Quattrone, 2013; Eccles & Serafeim, 2011).

Adams (2015) proposes that the practice of IR brings about improvement in organisations' decision-making, communication, materiality determination and risk management processes. Raising the issue that the focus of IR is to consider how an organisation creates value, rather than on measuring impacts, Adams (2015) suggests that accountants, sustainability practitioners and researchers have given little attention to date on how this might be done under a multiple-capital model. Eccles and Krzus (2010) show that IR also assists organisations in adapting to changing business expectations, providing more meaningful accounts of organisations' performance to a wide range of stakeholders and meeting increasing information demand from stakeholders. Besides, Eccles and Armbrester (2011) argue that IR, by driving its adopters to formulate a sustainable strategy to generate value in medium and long-term and communicate it to stakeholders, help drive the firm's share price higher.

For Adams et al. (2011), with IR, the strategic integration of sustainability initiatives embeds sustainability into organisational decision-making, promotes better resource allocation, and forms the basis for integrating sustainability into corporate reporting (IIRC, 2011). In a book chapter, Eccles and Serafeim (2011) described the concept of IR and a brief history of its development, reviewed the current state of practice, presented a strategy for institutional change that will accelerate the adoption of IR in order to meet the five-year objective, and concluded with a call to the reader to do whatever was needed to speed the adoption of IR. Similarly, Adams et al. (2011), in their book 'The journey toward IR', introduced the concept of IR and its underlying principles and provided an overview of the new demands being placed on reporting approaches and a brief outline of some of the internal, external and regulatory issues that are driving IR. Likewise, part one of Busco et al.'s (2013) book included a series of chapters reflecting on some of the key concepts, elements, principles (such as connectivity of information, materiality, stakeholder engagement) and most significant content elements of IR (such as interplay between strategy and the business model, performance measurement and the

capitals, value creation and cost management, integrated risk management) that underpin IR adoption.

With the purpose of examining the evolution of corporate reporting on social investment activities towards IR, Adams et al. (2016) undertake a study which adopts both a conceptual and content analysis approach to explore the reports of four multi-national corporations. They base their argument on the fact that the IR framework provides a mechanism to address the non-financial information needs of providers of financial capital by providing insight into the effectiveness of the organisation's strategy in creating value as defined in IIRC (2013) and claimed that advocates of IR maintain that it will help organisations integrate social and environmental considerations and social investment activities into mainstream business processes and decisions (Adams, 2015; IIRC, 2013). Results of Adams et al. (2016) indicated that there has been an identifiable shift in reporting on social investment, while there is greater focus on establishing the linkages between the multiple (social, environmental and financial) dimensions of their business activities. They further offer supporting evidence of IR moving towards integrated thinking with a key concluding remark that IR offers significant potential for changing how organisations think about their social investment. In a parallel line to this sub-theme, some scholars addressed the strengths or the benefits of IR (Black Sun & IIRC, 2014; McElroy & Thomas, 2015; Murray, 2013; Phillips et al., 2011).

Even prior to the establishment of the IR framework in December 2013, professional accounting bodies and large international accounting firms also specified that IR was in its development and trial phase and asserted the need of IR (ACCA, 2011; Atkins, Maroun, & ACCA, 2012; Deloitte, 2012; GRI, 2013; KPMG, 2011, 2013a, 2013b; PWC, 2012, 2013).

Deloitte, in their 2012 survey, has stated that:

At Deloitte, we see Integrated Reporting as enabling a process which enhances and preserves long-term sustainability in all its dimensions, without unduly sacrificing short-term performance. The Integrated Report is in turn an annual report that comprises a holistic and integrated representation of the entity's efforts to enhance and preserve long-term sustainability in all its dimensions, without unduly sacrificing short-term performance (p. 8).

The concept of IR has arisen to address such deficiencies in current reporting regimes (ACCA, 2011). It further mentioned that:

Notably, integrated reporting is much more than a public report to stakeholders, and it is not merely a merger of financial and non-financial reports. For most organisations, adopting an

integrated approach will involve a fundamental shift in their business model as they examine value creation through multiple dimensions (p. 7).

### **Insights, gaps and potential of IR**

The second sub-stream of normative IR studies probe into the potential of IR as the new corporate reporting model and attempt to highlight the insights, gaps and future potentials of IR (Camilleri, 2018; Deegan, 2017; de Villiers et al., 2014, 2017a; 2017b; de Villiers & Sharma, 2020; Dumay et al., 2016; Lehman & Morton, 2017; Lodhia, 2017; Oll & Rommerskirchen, 2018; Rinaldi et al., 2018; Smith, 2015; Veltri & Nardo, 2013), while some books/book chapters were also focusing on emerging research on IR (de Villiers & Maroun, 2018; Eccles & Krzus, 2010; Eccles et al., 2010; Hong, 2010; Kohler & Hoffman, 2018; Lewis, 2010). The ‘one report’ book of Eccles and Krzus (2010) is about the contribution IR can make to sustainable company strategies that contribute to a sustainable society and the recommendations for how IR can be adopted as broadly and rapidly as possible.

In their book, Eccles et al. (2010) provided initial reflections and next steps of the landscape of IR, devoting separate chapters to discuss the state of IR today in particular, such as the role of the corporation in society and the content and practice of IR, the concept of IR, companies’ actual experience and some persuasive logical arguments for the benefits companies will receive from IR, insights from investor’s perspective, integrated audits of integrated reports, contribution of technology to IR, various means and benefits of stakeholder engagement, challenges of IR, developing and implementing IR and lessons from experience of those who used IR. Consequently, in a recent work published in a book chapter, Kohler and Hoffman (2018) reflected on challenges and task realignments associated with the introduction of IR, arguing that IR not only affects accounting and external reporting processes but also necessitates the re-evaluation of internal audiences, particularly top management, as target groups of the investor relations function while bridging investor relations and strategic management.

De Villiers et al. (2014; 2017a; 2017b) provided a solid foundation upon which academic researchers in the IR area can build their research and also provide insight to regulators and reporting organisations to support further development of policy and practice. De Villiers et al. (2014) address the antecedents of IR, pioneers of IR, regulatory developments and recent developments in IR policies and practices. Specifically, it includes an explanation of key insights from other studies in the special issue of Accounting, Auditing and Accountability

Journal with a comprehensive and challenging research agenda to address unanswered IR issues (de Villiers et al., 2014). Furthermore, de Villiers et al. (2017b) discuss measurement and research design issues to take into account when designing studies on IR and identify approaches and set an agenda for future research. In order to investigate local forms of phenomena, de Villiers and Sharma (2020) develop a section of ‘insights’ into the forms of reporting of intellectual capital, financial reporting on intangibles, IR and the GRI sustainability reporting guidelines and how these elements relate to each other. Similar to this, Haller and van Staden (2014) provide insights on the development of IR by encouraging both academic and institutional discussion on how to apply the concept of IR as corporate reporting practice. The book chapter of de Villiers and Maroun (2018) provided a brief overview of the book ‘Sustainability accounting and IR’ and discussed the likely future of the practice of and research on sustainability accounting and IR.

Addressing the future of IR for organisations, Adams (2013) posted a blog, emphasising what IR is, how companies would do it and what difference IR would make to whom, particularly requiring a fundamentally different way of thinking for organisations, rather than in silos, about what makes an organisation successful and its reliance on a much broader set of capitals than financial capital.

### ***Reporting templates for IR***

The third sub-stream of normative studies incorporates the central idea of existing IR guidelines by promoting specific reporting templates (Abeysekera, 2013; Abhayawansa, 2014; Demartini & Trucco, 2017; Haller & van Staden, 2014; Kaya, Erguden, & Sayar, 2016; Menicucci & Paolucci, 2018; Nicolaou, 2010; Oprisor, 2015a). Such reporting templates include a structured presentation of the traditional measure of value added in a value added statement as a reporting instrument for IR that covers the majority of the six capitals (i.e. financial, manufacturing, intellectual, human, social and relationship and natural capital) that management should consider according to IIRC’s framework (Haller & van Staden, 2014). Based on a comprehensive review of literature and following a normative approach, Haller and van Staden (2014) explain that the measure of value added possesses a dual nature, which incorporates two different aspects: performance aspect (entity focused) and the social aspect (society focused). Their argument is the usefulness of IR is determined through the value generated by the entity and the value distributed to the society (IIRC, 2013b).

In 2013, Abeysekara provided a conceptual paper proposing a coherent framework on IR, with a template founded on concepts proposed in IR by the King Report on Governance for South Africa (King III) and the IIRC based on stakeholder theory. They argue that integrated reports should explain the story of reaching the organisation's vision, underpinned by its values, enacted by management, monitored by governance, and using facets of resources relating to financial capital, intellectual capital, social capital and environment capital. Nicolaou (2010) proposed a conceptual business reporting model to show that higher levels of transparency in a firm's information value chain can lead to the creation of organisational capabilities and the realisation of relational capital.

With an objective to provide a clear perspective for auditing integrated reports, Oprisor (2015a) pointed out that collaboration between the IIRC and other standard setters can be viewed as the best way of overcoming the hindrance and providing coherent and effective audit methodologies that can be used in the integrated reports. It was interesting to note that, except for Menicucci and Paolucci (2018), all other research articles which addressed the theme of reporting templates to IR were carried out prior to the establishment of the IR framework in December 2013. Using four interrelated theoretical perspectives (agency theory, signalling theory, stakeholder theory and legitimacy theory), Menicucci and Paolucci (2018) theorised a comprehensive theoretical framework to describe and to interpret the key premises and the implications in disclosing forward-looking information of organisations. With an objective of deriving the essence of IR, Kaya et al. (2016) developed a holistic framework for sustainability and value creation.

Focusing on the analysis of non-financial voluntary disclosure with a further investigation on IR and its role within corporate disclosure in South Africa, Demartini and Trucco (2017) published a book providing a practical and theoretical framework of IR and proposed a comparison of the main frameworks available within the relevant literature.

### ***Critiques, key issues and implications of IR***

The fourth sub-stream of normative studies on IR acknowledge the critical aspects, key issues and implications of IR. Some scholars had critical views on the actual worth of the IR agenda, and made claims against its stated objectives, scope and benefits (Aprile, 2014; Baret & Helfrich, 2018; Brown & Dillard, 2014; Cheng et al, 2014; ; Conradie & de Jongh, 2017; Dumay et al., 2017; Flower, 2015; Huggins et al., 2015; Kamp-Roelands, 2013; Owen, 2013a, 2013b; Rambaud & Richard, 2015; Rossouw, 2010; Ruiz, 2013; Sinnewe, 2017; Thomson,



2015; Velte & Stawinoga, 2017; Welford, 2012). One of the main criticisms is that IR embraces the notion of ‘value-to-investors’ and focuses excessively on the information needs of providers of financial capital (Cheng et al., 2014; Flower, 2015). They argue that the primary objective of an integrated report is to provide insight to providers of financial capital about the resources and relationships, which are referred to as capitals used and affected by an organisation and how the organisation interacts with the external environment and the capitals to create value over the short, medium and long term. However, Adams (2015) brings out that IR benefits all stakeholders who are interested in an organisation’s ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policy makers (IIRC, 2013b).

The primary objective of Cheng et al. (2014) is to discuss and resolve the key issues being debated related to the consultation draft issued prior to the release of the IIRF (IIRC, 2013b). The issues have been derived and reported to IIRC by an international academic subcommittee of the International Association for Accounting Education and Research (IAAER). The three main issues identified by Cheng et al. (2014) are the focus on the providers of financial capital (Brown & Dillard, 2014; Flower, 2015), the meaning of and trade-offs between different capitals (Dumay et al., 2016; Jensen & Berg, 2012) and the assurance of integrated reports (Jensen & Berg, 2012). Given the IR framework that allows trade-offs between different types of capital as long as the total stock of capitals increases, Flower (2015) probes an argument, paying particular attention to the requirement of reporting on capitals. As the IR framework permits trade-offs to take place in capitals, according to Flower (2015), it is problematic and criticises that if firms have a loss in natural capitals, it will deteriorate future sustainability. It inadvertently justifies unsustainable activities in which organisations exploit natural capitals to generate other types of capitals, including financial capitals (Setia et al., 2015).

In critically assessing IR, Brown and Dillard (2014) provide ‘broaden out’ and ‘open up’ dialogue in IR. They discuss how accounting and reporting standards might assist or obstruct efforts to foster sustainable business practices. They criticise the IIRC proposals claiming that it offers critical insights into the current ways of thinking, acting and reporting; thus, they conceive IIRC proposals encourage the weak form of social and environmental reporting providing a limited and one-sided approach in assessing and reporting sustainability issues. Thus, Brown and Dillard (2014) contend that IR has not accommodated divergent environmental, social and political disclosures, hence failing to advance sustainability practice and conditions of adopting organisations.

In the view of Flower (2015), IR proposals only extend current corporate reporting practices which lack meaningful content compared to the prior reporting experience in the form of sustainability reporting, and triple-bottom-line reporting produces a set of reports with little or no substantive reporting. Supporting evidence for Flower's (2015) idea that IR has been pursuing a hidden agenda was found in Milne and Gray's (2013) claim that the IIRC's discussion paper, 'Towards integrated reporting' is an attempt of complication and avoidance of any recognition of the prior 40 years of research and experimentation. Thus, Dumay et al. (2017) agree with Milne and Gray's (2013) argument that there is more to the IIRC's promotion of IR than becoming the corporate reporting norm, with its publication on the barriers to implementing the international IR framework. Dumay et al. (2017) focus on possible barriers and emphasise the specific issues that could be rectified to advance the IR framework along with the areas that may potentially hinder its wider adoption and implementation.

The commentary by Thomson (2015) largely supports the criticisms and conclusions of Flower (2015) and provides some additional insights into the possible impact of the sustainability of the IR framework. Though Flower (2015) argues that the IIRC's proposals will have little impact on reporting practice, Adams's (2015) response to Flower (2015) reveals that they already are having an impact on over 100 businesses which have been involved in the pilot programme of IIRC and that many others are adopting elements of IR, as international regulation is increasingly requiring disclosure of strategy, risks and business model information in annual reports and operating and financial reviews. Adams (2015) argues that whilst it may be of interest to assess the content of the IIRC's framework, it is certainly much too early to assess the success or failure of IR.

Providing supportive evidence, Adams et al. (2016) claims that the IIRC's pilot programme participants reported internal benefits to their organisations including improved connections between departments; improved internal processes leading to a better understanding of the business; increased focus of the board and senior management; better execution of the strategy and business model; and value creation for stakeholders (IIRC, 2012). Stubbs and Higgins (2014) state that IR will take more time to emerge as an innovative disclosure mechanism; moreover, some professional accounting bodies and international accounting firms argue that full adoption of IR is a journey of three to five years for many organisations and the implementation may pose some challenges and obstacles, as it requires organisational change at all levels and problems associate with efficient gathering of non-financial information (EY, 2013; KPMG, 2012).

Furthermore, IR's uptake as a new reporting paradigm has been canvassed by some other scholars by addressing and remedying the possible implications of IR. Rambaud and Richard (2015) analysed the TBL model (Triple Bottom Line) and its implications and then suggested a new accounting framework that enables genuine IR. As assurance is desirable to ensure that reliance can be placed on integrated reports, Huggins et al. (2015) illuminated the bases for the directors' concerns about personal liability exposure, particularly for forward-looking statements by outlining the similarities between IR and the operating and financial review requirements under the Corporations Act, and the relevant grounds for liability for misleading and deceptive disclosures, and breach of directors' duties. As a way forward, Kamp-Roelands (2013), Owen (2013a, 2013b) and Ruiz (2013) identified the essential elements to be included and embedded in modern professional accounting curriculum development, in particular, the challenges associated with sustainability, which in turn will have an impact on the education and training of accountants in order to reflect these new principles to prepare the twenty-first century accountant for a much more challenging role in the near future.

IR is on its journey to become the corporate reporting norm in future, a critical viewpoint on realising that vision of IR has been addressed by Conradie and de Jongh (2017). With a similar viewpoint, Velte and Stawinoga (2017) discussed the current state of IR empirical research, its limitations and future research implications.

Despite the academic context, professional organisations and conference papers have also addressed the issues and concerns of IR. For an example, factors affecting the corporate report preparers', auditors' and users' judgements about materiality and conciseness in IR have been analysed in ACCA (2016a) and in ACCA (2017a, 2018a) as well. Other than focusing on the issues of the application of materiality, ACCA (2018a) has discussed challenges in IR, particularly on linking strategy and performance, the board's role in enabling value creation, organisation's outlook. In a conference paper, Aprile (2014) also stressed some considerations about materiality. ACCA's (2017a) report explored how organisations are addressing the challenging areas identified on the five principles: connectivity of information, materiality, conciseness, reliability and completeness, and consistency and comparability, and shared examples of good practice of a review project of 41 corporate reports by IR Business Network participants. On the other hand, challenges relating to the assurance of IR is another vital aspect being focused on by standard setters and regulators too (IAASB). For an example, the IR working group of IAASB has issued a discussion paper and supplemental information to the

discussion paper supporting the credibility and trust in emerging forms of external reporting, particularly focusing on 10 key challenges for assurance engagements (IAASB, 2016a, 2016b).

Some books have also drawn on the significant issues and challenges of IR, such as assurance of IR (Eccles et al., 2012) and accounting and auditing profession's involvement in IR development (Soh, Leung, & Leong, 2015). Soh et al. (2015) analysed the responses sent to the IIRC by numerous international and national accounting and auditing professional bodies at various developmental stages of the international IR framework regarding key aspects of IR to highlight challenges to the accounting and auditing profession.

### ***IR in different organisational contexts***

The fifth sub-theme of normative studies outlines the broadening of IR into other organisational contexts. Extending the potential of IR initiatives to not-for-profit (NFP) organisations, Adams and Simnett (2011) examined the applicability of the principles of IR and opportunities for implementation of more holistic, useful and meaningful reporting in the Australian NFP sector. They claim that IR provides strategic information that is important in terms of acquiring competitive funding (Adams & Simnett, 2011). In a similar line of conceptual study, opportunities that arise for SMEs considering adopting an integrated report approach and the strategies for integrating sustainability reporting with companies' financial results have been explored by James (2013). Extending the IR into the university context, Altenburger and Schaffhauser (2014) have written a book chapter taking Australian public universities as an example. Bartocci and Picciaia (2013) also contributed to a book chapter towards IR in the public sector. Similarly, part one of the book of Busco et al. (2013) introduced a proposal of value-added calculation within the context of multinational enterprises, and some reflections concerning the adoption of IR in the public sector. Ambachtsheer (2016) assessed the integrated annual reports prepared by the South African Sentinel Mining Industry Retirement Fund in the context of the new IR framework and pointed out three areas where future versions could be improved in the context of Australian pension organisations and IR.

### ***IR and Integrated thinking***

The final normative sub-theme which addresses the past studies on IR is integrated thinking (Hoque, 2017; Oliver et al., 2016). From the academic perspective and as a conceptual study, Oliver et al. (2016) offer theoretical and practical insights on the ways in which integrated thinking is observed in practice, and they conceptualise integrated thinking using a theoretical

framework developed from accounting and systems-thinking literature. In an attempt to highlight IR as the holistic reporting approach for companies and the potentiality of a single report, Hoque (2017) probes into how IR would improve the stakeholder engagement process and then integrated thinking, which leads to change in corporate behaviour as well as to enhancing the reputation and performance of the company. Even though Oliver et al. (2016) described integrated thinking as an attribute or capacity for senior management to constructively manage tensions between the multi capitals (financial capital, manufactured, human, intellectual, social and relationship as well as natural capital) in strategy, resource allocation, performance measurement and control, no attention was placed on organisational value creation through integrated thinking and how integrated thinking can be achieved through a stakeholder management approach towards managing these multi-capitals.

The purpose of SAICA's (2015) survey was to share the South African experience of how implementing IR was impacting integrated thinking and has contributed to understanding integrated thinking. SAICA (2015) also identified some of the benefits and key drivers of integrated thinking that were noted in the survey and summed up stating integrated thinking promotes a more holistic assessment to grow better businesses and better societies.

Integrated thinking is a crucial if not the most important section and any company that wants to start the integrated thinking process will need insight into a broader set of information compared with traditional financial analysis (Deloitte, 2015). And this information should be more interconnected and more forward-looking (CGMA, 2014). CGMA (2014) has reported on integrated thinking as the next step in IR and concluded that developing integrated thinking to support business decision-making will not only present the opportunity for competitive advantage but also contribute towards global financial stability. In a survey of assessing organisation's decision-making capabilities, CGMA (2016) identified some organisations performed as integrated thinkers and showed that they are characterised by strong implementation of the global management accounting principles (namely influence, relevance, analysis and trust) that provide a foundation for effective decision-making and the creation of value in large organisations.

### **3.6.3 Empirical studies of IR**

This section appraises the existing empirical studies on IR. To reiterate, the present study results are in contrast to the research findings of Haji and Hossain (2016) and Dumay et al.

(2016), who shared a similar view that most of the past studies fall into the category of normative in nature as conceptual studies, and few studies have undertaken studies in organisational contexts, as empirically examined. Despite the increasing recognition received for IR at the firm, national and international level, Barth et al. (2017) also claimed that empirical evidence on adoption of IR is scarce. However, as revealed in the first stage of the LR approach discussed in the section 'IR literature analysis of peer-reviewed journals' and according to the working paper carried out by the present researcher, there is evidence of more empirically examined IR studies than the conceptual studies of IR based on an analysis of academic studies published in ABDC journals. In investigating IR in practice, this study identified two main research approaches: qualitative research on IR and quantitative research on IR. This classification was also found in Haji and Hossain (2016).

Thus, the qualitative approach and quantitative approach have been presented under the two sections 3.6.3.1 and 3.6.3.2, respectively, in the present study. Given the first research objective of preparing a disclosure index to explore the extent and nature of IR disclosure, the last section (section 3.6.3.3) of the literature review of the present study separately discusses the IR disclosure-related research, extending Setia et al. (2015).

### **3.6.3.1 Qualitative approach**

The in-depth analysis of qualitative studies on IR has been discussed under a few sub-categories, such as how IR is perceived and conceptualised in organisation, the accountability and assurance on IR, the challenges of IR, the demand-side of IR, how IR facilitates as a new internal mechanism in organisations, IR in different organisational contexts, and integrated thinking.

Among the qualitative studies which have focused on *how IR is perceived and conceptualised in organisation*, Higgins et al. (2014) interviewed 23 managers across 15 early-adopting Australian companies through in-depth semi-structured interviews to explore the importance of role model organisations to the institutionalisation of IR. They explain that managers conceptualise IR in two narratives: a strategic storytelling and about meeting expectation. Drawing on institutional theory, Higgins et al. (2014) explain how credible organisations can shape how IR comes to be known and established and also suggest that institutionalisation of IR is unfolding and influenced by the activities and narratives of the early adopters. Similarly, in Australia, with an aim to provide practical insights into a senior manager's engagement with IR, Vesty et al. (2018) theorise IR as an accounting compromise and test of worth in an

Australian IR pilot organisation while using the personal narrative approach to analyse the in-depth interviews which privilege the voice of an individual actor (the chairman of the IR pilot organisation) at the heart of decision-making.

Furthermore, the present study identified a number of studies which have used the case study approach to reveal their results on how IR has perceived in organisations (Adams et al., 2016; Badia et al., 2018; Burke & Clark, 2016; Doni & Gasperini, 2014; Paoluccil & Cerioni, 2017; Sofian & Dumitru, 2017; Vitolla, Raimo, & De Nuccio, 2018; Vorster & Marais, 2014). Through a series of case studies, Eccles and Serafeim (2014) described what constitutes an effective integrated report, the role of regulation in IR and why IR could be a superior mechanism to perform the two primary functions of corporate reporting: information and transformation.

Several other case studies have addressed the emergence of the IIRC and its attempts to institutionalize IR as a practice that is critical to the relevance and value of corporate reporting (Burke & Clark, 2016; Humphrey et al., 2017) based on document analysis of various IR-related documents and commentaries, for example, IIRC discussion paper, responses to discussion paper, IR framework and IIRC press releases (Humphrey et al., 2017) and IR speeches of leading practitioners, regulators and academics (Burke & Clark, 2016). In a few conference proceedings, while Humphrey et al. (2014) used the institutional theory to understand the attempts to institutionalize IR as a new reporting framework, Doni and Gasperini (2014) used a case study approach to analyse internal IR and value creation. In terms of value-creation, the influence of the complex interrelationships between environmental, social and governance (ESG) risk; delivering on corporate strategy; non-financial corporate reporting; and board oversight on the ability of firms to create value for their providers of finance and other stakeholders has been explained by Adams (2017) based on cross-country comparison of interview data with board chairs and non-executive directors of large listed companies on the JSE and the Australian Stock Exchange.

Quite a few case studies have provided insights from different perspectives on the development and use of integrated reports as well as the IR framework in organisations using the documentation review of qualitative data (Badia et al., 2018; Vitolla et al., 2018; Paoluccil & Cerioni, 2017; Vorster & Marais, 2014). For an example, Badia et al. (2018) verified the ability of IR to support the mobilisation of intellectual capital (IC) and investigated how the business context influences the processes of measurement, management, and reporting of IC as an

exploratory study of three companies which have applied the IR framework. Drawing on in-depth interviews with IR preparers of a European oil and gas company, Corbella, Florio, Sproviero, and Stacchezzini (2019) investigated how IC is problematised in the context of IR in defining, classifying and valuing IC within the process of preparing an integrated report. Through a reconstruction of the development process and an analysis of the benefits and of the current state of IR, Vitolla et al. (2018) showed the central role of legislation in the adoption and dissemination of IR in Italy. In the same geographical context, Paolucci and Cerioni (2017) examined the real reasons that have pushed eleven major Italian companies to opt for IR and, especially, explored the benefits that can be identified a few years beyond the first publication of an integrated report. They further highlighted the exhaustive list of benefits reported by these companies may serve as an incentive for those that have not yet adopted IR. Vorster and Marais (2014) qualitatively evaluated a state-owned utility in South Africa, Escom, regarding their response to their stakeholders' triple-bottom-line interests and expectations and found that at a transactional level, the report meaningfully disclosed the engagement with the majority of stakeholders' triple-bottom-line interests and expectations.

Several other qualitative studies were also found using documentation review (Dumitru & Guse, 2017; Oprisor, 2015b; Silvestri et al., 2017; Trebucq & Magnaghi, 2017). Performing a content analysis of 359 comment letters which were submitted to the Consultation Draft (IIRC, 2013a) and to discuss the contributions provided by the professional bodies, standard setters, policy makers and regulators to the IR framework, Oprisor (2015b) studied the incentives which determined the respondents to provide comments on specific sections of the consultation draft (IIRC, 2013a) and the extent to which these comments brought added value to the IR framework. In a similar line, a qualitative exploration and evaluation was conducted using the EFQM<sup>10</sup> excellence model to help managers better understand the connectivity between the various capitals and consider it as a complementary management control systems tool for implementing IR and showed how the EFQM model could be used in improving the strategic thinking in conformity with the six capitals suggested by the IR framework (Trebucq & Magnaghi, 2017).

Using the legitimacy theory, Dumitru and Guse (2017) focused on the organisational legitimacy gained by a standard setter, the IIRC, using a qualitative approach in analysing all the IIRC documentaries and commentaries. In so doing, they considered the legitimacy granted

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<sup>10</sup> EFQM - business excellence model by European Foundation for Quality Management



by all the categories of stakeholders and also provided the sources of legitimacy that can be explored in future by IIRC in order to overcome the possible threats to the IIRC's legitimacy. Based on mandatory and voluntary reports and stakeholder engagement reports for the period 2013 to 2015 and financial and non-financial reporting flow charts, a research template has been proposed by Silvestri et al. (2017) to evaluate the degree of accountability (of three main dimensions: stakeholder involvement, business model and integration) of the case study selected, representing a non-listed Italian company operating in the food industry.

Relating to the *accountability of IR* (Lai et al., 2018; Silvestri et al., 2017) and *assurance in IR* (Briem & Wald, 2018; Dumitru & Guse, 2016; ; Engelbrecht et al., 2018; Maroun, 2017, 2018; Simnett & Huggins, 2015), few studies appeared in the literature using the qualitative methodology. While insights and recommendations from auditors and IR preparers have been addressed by Maroun (2017), Engelbrecht et al. (2018) explored the roles of the initial perceptions of 10 chief audit executives (CAEs) on the role of internal audit function (IAF) in IR in South Africa relating to the assurance of integrated reports. Similarly, state of the art of assurance of social, environmental and governance sections of integrated reports was addressed by Dumitru and Guse (2016), who concluded that most of the companies obtain assurance only for part of the information disclosed in the integrated reports and that most of the reports are assured by the accountancy companies and the most used standard is ISAE 3000. Maroun (2018) developed a case study for interpretive assurance which modifies the assurance practices to meet the needs of IR based on the detailed interviews carried out with audit partners, associated directors and senior managers from the big four audit firms in South Africa.

With an aim to provide rich and under-explored future research avenues, Simnett and Huggins (2015) provided insights and details of the process of adopting IR and the implications for adopters and assurance providers of integrated reports, standard setters and regulators. They discuss the arguments for and against the salient aspects of the IR framework arising in the IIRC's stakeholder consultation process for the development of the IR framework, opportunities for informing the business case for IR and arising from the need for assurance on integrated reports. In the European context, companies' motivation and auditors' role towards implementing third-party assurance in IR have been assessed by Briem and Wald (2018) using in-depth semi-structured interviews in Germany. In the same European context, the role of IR preparers (business, insurance and national network) towards IR and narrative accountability was analysed in Italy using the Bruner's functionalist approach to interview narratives (Lai et al., 2018). Interestingly, as a basis for building new forms of stakeholder accountability in

contemporary society, Atkins et al. (2015a) used an action research in Utopia, using an auto-ethnographic approach based on a dialogue between a group of accounting academics, environmentalists and other lobbyists. They presented a stakeholder accountability event in the form of an oral account of a day's events in futuristic production processes, written in the form of a song cycle, using the utopian metaphor by William Morris.

Using the same qualitative methodology, several other studies have focused on the *challenges of IR and its practice* (Argento et al., 2018; Bouten & Hooze, 2015; Brand, Winistörfe, Berger, Hetze, & Daub, 2018; Coulson et al., 2015; Giovannoni & Maraghini, 2013; McNally & Maroun, 2018). At a very early stage, the case of the challenges of integrated performance measurement systems were addressed by Giovannoni and Maraghini's (2013) study on integrating mechanisms for an integrated measure. Challenges and opportunities for IR were discussed by Coulson et al. (2015) by exploring metaphors of capitals and the framing of multiple capitals. Argento et al. (2018) developed an explanatory case study to address the challenges in legitimising the role of the CSR manager from sustainability to IR. As it is not always the bad news, potentiality of IR (McNally & Maroun, 2018) and the insights to overcome current practical challenges in sustainability and IR (Brand et al., 2018) have been illustrated as case studies by a few scholars. Using the participation and observation method, Bouten and Hoozee (2015) involved 194 master's-level students by playing the role of an active jury member on the judging panel for the 'best Belgian sustainability report award' and assessed the challenges faced by the Belgian companies in sustainability and IR.

By exploring the views and opinions of preparers towards IR, Chaidali and Jones (2017) interviewed 15 senior management from a sample of FTSE 100 companies and 15 participants from design/communication consultancies as preparers who influence the production of integrated reports and who have experience of design and communication in corporate reporting in the UK. They found that preparers are concerned about the credibility of a single report and seem uncertain of the benefits or the beneficiaries of IR and preparers report problems stemming from a lack of adequate and clear guidance, high preparation costs, the format, and the length of the report, which undermine IR's credibility. Correspondingly, McNally et al. (2017) explored the challenges of preparing an integrated report in South Africa. Their interviews with 26 preparers at 9 South African-based organisations highlighted practical issues encountered when producing an integrated report. Some of the issues they encountered were reporting guidelines were used as disclosure checklists, stakeholder engagement was limited, systems were not always compatible and data analysis was difficult and preparers were also unconvinced that integrated

reports are taken seriously by investors, further limiting the interconnection between sustainability performance and IR.

When compared to the research on the supply side of IR (preparers' perspectives), as discussed in the previous paragraphs, some other qualitative research has investigated the *demand-side or the users' perspectives on IR* (Abhayawansa et al., 2018; Atkins & Maroun, 2015; Hsiao & Kelly, 2018; Parrot & Tierney, 2012; Strong, 2015; Stubbs & Higgins, 2018; Stubbs et al., 2014; van Bommel, 2014). Besides the IR's potential to bridge the information gap, Stubbs et al. (2014) identified a significant gap between the information supplied by companies and the information required by providers of financial capital to make investment decisions. They investigated users' perspectives on how IR and the six capitals are influencing their investment advice, recommendations and/or decisions based on four Australian participants in the IIRC pilot programme Investor Network (providers of financial capital). Their findings revealed that the potential benefits and outcomes of IR identified by Australian Investor Network participants are consistent with those identified by IIRC. Furthermore, Stubbs and Higgins (2018) and Strong (2015) have also addressed the users' voices in Australia. Stubbs and Higgins (2018) interviewed IR stakeholders in Australia to understand their perspectives on the role of regulatory and voluntary approaches in the adoption and spread of IR in Australia.

Drawing on a unique perspective by focusing on what the users of integrated reports expect from IR, especially what should be mandatory and what is possible to be addressed through voluntary guidelines, Stubbs and Higgins (2018) also reflected on the potential for IR to lead to more substantive disclosures and accountability. Based on the actor-network theory and connecting with 34 representatives from 13 interest groups in Australia, Strong (2015) looked into the aspect of whether IR is a matter of public concern. The importance of IR and stakeholder engagement and value of integrating financial, environmental, and social factors in its investment decisions at American Electric Power was discussed by Parrot and Tierney (2012) based on the arguments on the theory of 'enlightened value maximisation', originally proposed by Michael Jensen in 2001. Parrot and Tierney (2012) found stakeholder engagement provides critical input to the company's strategy and investment decisions, while agreeing with Jensen's premise that stakeholder engagement both supports and enhances value maximisation. However they disagree with Jensen (2001) that it should stand in as the firm's sole objective function, since the enlightened value maximisation theory does not offer a practicable guide to decision-making because it does not tell management how to weigh or balance sometimes conflicting interests when seeking long-term value maximisation.

From the perspective of investors, Hsiao and Kelly (2018) explored the investment considerations and impressions of IR and the IR framework by interviewing 16 Taiwan investors. They found that investors were reliant on private information sources and quantitative data and sustainability disclosures and sustainability performance beyond legal requirements were often not considered. They also revealed that Taiwanese investors lack awareness of the IR framework and were sceptical about the premise that integrated reports can provide information material to investment appraisal. In a similar line of research, Atkins and Maroun (2015) analysed the initial reactions of 20 South African institutional investors to the first sets of integrated reports being prepared by companies listed on the JSE using detailed interviews in 2013. Their findings revealed that the length of reports, repetition and a check box approach to reporting, however, detract from the usefulness of the reports and undermine the development of an integrated thinking ethos. From a diversified resources firm perspective, Lodhia and Martin (2012) revisited a corporate sustainability framework in an IR era.

At an individual level of analysis, van Bommel (2014) conducted 62 semi-structured interviews and argued that IR is unlikely to forge a legitimate compromise with a broader range of sustainability stakeholders, such as public sector, civil society, investment community, reporting firms, academics and professional services firms. This analysis suggested that different logics of valuation need to be reconciled in a compromise in order for IR to become a legitimate practice and such a compromise requires a common interest, avoidance of clarification and maintenance of ambiguity. Results also suggested these mechanisms are violated though, with the risk that IR gets captured by investors and accountants, leading to local private arrangements rather than durable legitimate compromise (van Bommel, 2014). In an attempt to find out whether IR is achieving its intended purpose by focusing on its usefulness as perceived by sell-side analysts, Abhayawansa et al. (2018) analysed the main data from 23 analysts who covered companies participating in the Pilot Programme Business Network of the IIRC as of 2013 based on the practice theory. They found that IR has not connected with analysts' practice of firm assessment. The improvements resulting from the adoption of IR are not relevant to analysts, as the reports do not provide the information required by analysts in sufficient detail or preferred format (Abhayawansa et al., 2018).

Among the qualitative studies which have focused on *how IR facilitates as a new internal mechanism in organisations*, Stubbs and Higgins (2014) explore the extent to which IR is stimulating innovative disclosure practices by investigating the internal mechanisms undertaken by early adopters of IR in Australia through 23 interviews across 15 organisations

with sustainability managers, finance managers and communications managers. They explored whether IR is driving organisational change, since IR is more closely tied to business strategy and how an organisation creates value. However, they argued that the adoption of IR is incremental rather than radical and did not argue that IR has not stimulated new innovations in disclosure mechanisms, concluding that IR is in its early adoption stage and it may take more time before innovative disclosure mechanisms emerge. Affirming the same, some professional accounting bodies and international accounting firms argue that full adoption of IR is a journey of three to five years for many organisations and the implementation may pose some challenges and obstacles, as it requires organisational change at all levels and problems associate with efficient gathering of non-financial information (KPMG, 2012; EY, 2013).

In spite of the above, several other scholars have provided evidence from integrated report preparers by exploring the transition to IR (Beattie & Smith, 2013; Beck et al., 2017; Dumitru, Glavan, Gorgan, & Dumitru, 2013; Healy, 2013; Lodhia, 2015; Lodhia & Martin, 2012; Mio, Marco, & Pauluzzo, 2016; Parrot & Tierney, 2012; Searcy & Buslovich, 2014). Exploring the transition to IR by a customer-owned bank to identify the drivers of transition, and thereby provide insights for other businesses seeking to engage in IR, Lodhia (2015) adopts a case study including in-depth interviews and documents analysis. This study is viewed through the lens of practice theory. Findings of Lodhia (2015) suggested that whilst the emphasis is on a unique context, there is a need for organisations to embrace integrated thinking and focus on integrated performance as a measure of business success. They further explained that reporting is merely an outcome and should be matched by internal structures and activities that are committed to reducing the adverse sustainability impacts of businesses and meeting ethical responsibilities.

A similar single case study approach was adopted by Dumitu et al. (2013) in order to illustrate the principles of the IR, presented in the IR prototype framework issued in early 2013 and the IR Discussion Paper issued in 2011, using a content analysis. They analysed how the selected software company's integrated report is an example of concise communication in the way in which strategy, governance, performance and future plans of the organisation generate value in the short, medium and long term. In exploring the long-term effect of IR on the quality of information using a multiple case study method, and following Solomon, Maroun and ACCA (2012), du Toit et al. (2017) reviewed integrated reports of four companies with high social and environmental impact, over a period of three years (2012 to 2014). While Solomon, Maroun and ACCA (2012) found that within a three-year period (from 2009 to 2011), along

with the increased information needs of stakeholders, the 10 major JSE listed companies eliminated this tendency to repeat information, du Toit et al. (2017) also found that there was a distinct decrease in the amount of information provided in integrated reports.

Following the case study approach, Mio et al. (2016) analysed the case of an Italian insurance company on whether and how the internal implementation of IR principles can advance management control systems (MCS). Similarly, Chiucchi, Montemari, and Gatti (2018) answered the research question of how IR can influence MCS, while addressing a research stream which called for more attention on IR and the role played by MCS and management accountants (de Villiers et al., 2014; de Villiers et al., 2016; Perego et al., 2016). In so doing, Chiucchi et al. (2018) presented a case of an Italian company that designed and implemented IR, using the IIRC guidelines, which was used as a tool for communicating the company performance and as a tool for enriching the company MCS to visualize and measure the overall company, particularly analysing the role played by the business model (BM). While accepting and embracing the guiding principles of the company's actors, Chiucchi et al. (2018) also agreed with the fact that developing an IR improves the understanding of the value creation process and, in turn, the focus of the measurement system, thus confirming past IR researchers (Beattie & Smith, 2013; Burke & Clark, 2016; Mio et al., 2016; Stubbs & Higgins, 2014). However, the IR representation model based on the logic inputs-BM-outputs-outcomes was criticised, as it was considered too complex and not able to represent the company's integrated performance, reflecting instead a series of disconnected and disjointed individual performances.

In a parallel line of research, and using the same triangulation process of research methods as in Chiucchi et al. (2018), such as document analysis, interviews, informal talks, and participant observations, Gatti, Chiucchi, & Montemari (2018) analysed the role played by the management accountant in promoting the design and implementation of the integrated report and how the role played by management accountants can significantly influence the whole design and implementation process at an organisational, technical, and motivational level, based on the case of a university hospital (Azienda Ospedaliero Universitaria Ospedali Riuniti Ancona) in Italy. They showed that the multiple roles and functions ascribable to the management accountant and to the MCS with reference to the design and the implementation of an IR system and adopting an IR requires constant support from the management accountant who is called to go beyond the mere production of information or the calculation of indicators

and play a pivotal role (Busco et al., 2013; Mio, et al., 2016; Owen, 2013a, 2013b; Trebucq & Magnaghi, 2017; Inge et al., 2014).

Conversely, McNally et al. (2017) explored the challenges in preparing an integrated report and found that the new report format of IR is imposed on existing internal processes and reporting protocols which precludes a broad understanding of the purpose of IR and limits the development of management control systems and a supporting accounting infrastructure. They suggested that those charged with governance need to ensure that their organisations are identifying the non-financial issues as strategically relevant, and thus sustainability performance targets need to be clearly defined and linked to specific performance indicators. They further claimed that the MCS and accounting infrastructure must be planned and developed to assist with the monitoring of sustainability performance and, in turn, to inform what information is included in integrated reports.

Some other researchers have illustrated the evidence by exploring the implementation of IR along with the implications of IR on organisational reporting practice (Eccles et al., 2015b; Gunaratne & Senaratne, 2017; Haji & Hossain, 2016; Juma et al., 2018; Lipunga, 2015; Lueg et al., 2016; Robertson & Samy, 2015; Rowbottom & Locke, 2016; Tweedie & Martinov-Bennie, 2015). With an objective to examine how the adoption of IR and the embedded multiple capitals framework have influenced organisational reporting practice, Haji and Hossain (2016) conducted a case study based on five award-winning integrated reporters in South Africa over a period of four years. Despite the fact that companies are increasingly conforming to reporting language embraced in IR guidelines and multiple capital frameworks over time, it was found that the disclosures are generic rather than company-specific, and lack substance, often framed in synthetic charming aimed to disclose the adopting of IR practice (Haji & Hossain, 2016).

Tracing the emergence of IR, with an aim to understand the diverse range of prior concepts shifting interest towards IR, Rowbottom and Locke (2016) undertook a study to interpret its informal use by firms to its interpretations and standardisation of IR based on IIRC framework. Using the actor network theory, this study interpreted the action through interviews conducted at two stages in 2012 with key individuals, official documents, publications and integrated reports circulated by IIRC, and through a documentation review of corporate reports selected and presented by the IIRC on the Emerging Integrated Reports Database by the end of 2012. Using the same data collection methods of interviews and documentation review, Lueg et al.

(2016) illustrated how standards and guidelines for corporate social responsibility (CSR) can help a company in its IR investigating the motivations of diverse stakeholders (including shareholders) in fostering the adoption of standards and guidelines for CSR after IR became mandatory in Denmark. They found that the selected case company followed a strategy of enlightened shareholder value, which fostered IR with guidelines and standards for CSR. However, they found that the long and technical CSR reports did not effectively communicate the case company's values and possibilities, and thus suggested that standardised approaches to CSR may be suitable for internal planning and control purposes; however, companies must go beyond these measurements to achieve IR (Lueg et al., 2016).

Following the same research methods, Robertson and Samy (2015) examined the factors affecting the diffusion of IR in the UK based on the diffusion innovation theory. They suggested that senior managers perceive IR as having a relative advantage over existing practice and they were supportive of IR. Based on the same theoretical perspective, the diffusion and adoption of IR from developing countries' perspectives were evident in Gunarathne and Senartne (2017), which is based in a SAARC<sup>11</sup> nation, and in Juma et al. (2018) in Uganda which showed how IR facilitates as a new mechanism in their corporate reporting agenda. By providing new insights into how the two forces, demand-pull and supply-push sides of the diffusion theory of innovation, contribute to creating a practice-reporting portrayal gap in IR, Gunarathne and Senaratne (2017) concluded that IR has been mainly a transition evolving through the incremental changes in sustainability reporting and many firms have not internalised the IR principles, with the danger of IR becoming a mere reporting mechanism. Using a content analysis of the corporate reports published by 12 companies listed on Malawi stock exchange, Lipunga (2015), also provided evidence for IR in a developing country setting.

With some more evidence of how IR has facilitated in organisations as a new reporting mechanism, Eccles et al. (2015b) provided a review of how companies are doing as they apply the IR framework to their integrated reports in 2015, by randomly selecting 25 reports of multinational companies that participated in the IIRC Pilot Programme. These reports were among the first to be published since the IR framework was released in December 2013. While assessing the extent to, as well as the effectiveness with which the companies have made use of the IR framework, Eccles et al. (2015) provided a brief review of the approaches, quality of the first batch of reports, and a sampling of best practices. Among those 25 participants, a Sri

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<sup>11</sup> The South Asian Association for Regional Cooperation (SAARC)



Lankan publicly listed company, the Dimo, who first acknowledged the incorporation of the IR framework, was also included. Eccles et al. (2015b) stated that Dimo link their materiality matrices to stakeholder engagement and begin their discussions of materiality by focusing on that and also highlighted the fact that Dimo lists its main stakeholder groups and the material issues associated with each along with a risk management map (Eccles et al., 2015b, p.113).

Despite the academic journals, several other sources emphasise the importance of IR and implementation of IR framework in empirical contexts (Busco et al., 2013; Dey & Burns, 2010). Dey and Burns (2010) included a chapter on IR at Novo Nordisk in 'Accounting for Sustainability: A Practical Guide' book by Hopwood and Unerman (2010) which provided in-depth case studies from leading organisations illustrating how accounting for sustainability works in practice. The purpose of Dey and Burns's (2010) chapter is to examine the background and development of IR at Novo Nordisk and to explore the extent to which the company's goal of full integration and its use of reporting and other control systems has succeeded in making sustainability an embedded feature of the organisation. Part two of Busco et al.'s (2013) book presented a collection of cases that describe how a number of companies, large and small, private and public, are approaching IR in practice. Although the adoption of IR by these companies was not comparable since each one of them has its own story, motivation and trajectory, all of these companies represented examples of organisations that are currently questioning traditional forms of reporting to move towards an integrated way to communicate the story of sustainable value creation (Busco et al., 2013).

Based on the qualitative strand of research, the present study could find few empirical studies which *extend the IR scope to other organisational contexts* despite the publicly listed entities (Ayoola & Olasanmi, 2013; Baldo, 2017; Brusca et al., 2018; Guthrie et al., 2017; Manes-Rossi, 2018; Pozzoli & Gesuele, 2016; Silvestri et al., 2017; Veltri & Silvestri, 2015). In the *context of universities*, while Veltri and Silvestri (2015) explored the integrated report by comparing the integrated report of a free-state university in South Africa with the IR framework, Brusca et al. (2018) examined the developments for the implementation of sustainability and IR in an innovative Spanish University by critically analysing what, why, who, and how the new models of reporting have been implemented. Along with the recent international acknowledgement of IR for *small and medium-sized enterprises* (SMEs), Baldo (2017) examined the most critical aspects relative to the usability of the IR framework faced by SMEs in releasing the integrated report and adapting the IR principles such as materiality, connectivity and integrated thinking to their needs and features.

Extending the IR towards *public sector organisations*, Guthrie et al. (2017) analysed and provided detailed case studies considering the internal processes of change in five Italian public sector early adopters of the IR framework and whether the adoption leads to internal integrated thinking. Following the same methodology, Ayoola and Olasanmi (2013) examined six business cases for the adoption of IR in the Nigerian oil and gas sector and concluded that the introduction of IR will streamline performance reporting that is in line with international best practice in the oil and gas sector. Within a similar geographical context, Manes-Rossi (2018) reflected on case studies of public entities as to whether IR represents a new challenge for public sector organisations, especially regarding their stakeholder engagement and their accountability. Pozzoli and Gesuele (2016) also explored the quality of integrated reports, in terms of its interpretation of specific elements related by their essential characteristics focusing on the integrated reports published by Italian public utilities which attended the pilot programme. Silvestri et al. (2017) evaluated the attitude of an organisation toward its stakeholders by reading throughout its IR in a *non-listed Italian company* and suggested that the organisations following a stakeholder engagement approach achieve a strong accountability toward their stakeholders.

Some other qualitative studies of IR have focused on the area of *integrated thinking*. In Guthrie et al. (2017), as explained in the above paragraph, the five Italian public sector organisations are analysed, and those authors used official documents, press releases and in-depth semi-structured interviews with the major internal actors in exploring the linkages between IR and organisations' internal processes, specifically focusing on investigating the internal mechanisms of change that can lead organisations to adopt IR disclosure and how this impacts on integrated thinking internally. Their results highlighted that the processes of change in organisations adopting IR is their adoption of a way of thinking, that is, integrated thinking, as a result of the process of internalisation. Using Bourdieu's theory of practice, Al-Htaybat and von Alberti-Alhtaybat (2018) explained the concept of integrated thinking and how it was established in a global service organisation in Asia and Africa, through publicly available corporate information.

With a purpose to explore how key stakeholders interpret integrated thinking and how pilot organisations are applying integrated thinking in practice, Feng et al. (2017) involved in-depth semi-structured interviews with two IR pilot organisations in Australia, one professional association, an accounting professional body, an accounting firm and two IIRC officials. Based on a case of a biopharmaceutical company, Knauer and Serafeim (2014) provided more insights

into what companies are doing internally and the kind of policies and practices that are likely to attract a long-term investor base through integrated thinking and reporting. They suggested that integrated thinking is about the achievement of sustainable profitability, whereby a company has the means and power to make explicit the efforts to develop integrated thinking and embed sustainability in the business model of the company. Empirical evidence which shows a direct link between integrated thinking and sustainability was also found in the study of Vesty et al. (2018), which viewed integrated thinking in terms of senior management commitment to include the broader range of capitals in performance evaluation and resource allocation decisions. The Prince of Wales' Accounting for Sustainability (A4S) project, has also suggested that integrated thinking is evidenced when senior management commit to a sustainability culture and ensure key performance measures are embedded within their business model and organisational practices (A4S, 2012).

Dumay and Dai (2017) presented a case study of a small Australian bank, which was also a pilot programme participant, by exploring the concept of integrated thinking as a cultural control and analysing how it operates. They argued that if integrated thinking is to prevail, it may become a source of inertia rather than change and they also questioned whether breaking down silos, as advocated by integrated thinking, is necessary across all organisational functions because these silos foster independent thinking. They further posed a fundamental problem with IR is that the IIRC argues 'why' companies need IR, not 'how' to implement IR, and especially not 'how' to operationalize integrated thinking rather aiming at a one-size-fits-all approach. Correspondingly, in exploring the challenges to preparing an integrated report, McNally et al. (2017) used an integrated thinking framework which stresses the importance of an interconnection between sustainability performance, proactive sustainability measurement, and IR, based on interviews, while following a qualitative approach. They found that rather than exploring innovative ways of communicating the interconnections between different types of capital, interviewees see the integrated report as a compliance-focused exercise which, paradoxically, is disaggregated into distinct parts which are the responsibility of specific team members. They also found that shared understanding of the purpose of the integrated report is also lacking. Therefore, the weaknesses encountered in the integrated thinking framework of McNally et al. (2017) highlighted the need for organisations to engage more formally with stakeholders to understand their information needs and refine reporting systems.

### 3.6.3.2 Quantitative approach

This section describes quantitative studies on IR under three sub-categories of research, such as explanatory factors of IR, integrated reporting quality, role of the board in the dissemination of IR, IR assurance, investors' and other stakeholders' perspectives on IR, IR research in other organisational contexts and integrated thinking.

Among the studies that focused on *explanatory factors of IR*, using a sample of 2000 companies, Frias-Aceituno et al. (2014) analysed the company reports for the period 2008–2010 period to examine the effects of explanatory factors (such as industry concentration, size, business sector, profitability, growth opportunities) on business practices underlying the production and disclosure of an integrated report (as the dependent variable). Findings revealed that company size and profitability have a positive impact on the likelihood of this type of report being produced; however, business growth opportunities and industry were not significant in this respect. The same authors in 2013 (Frías-Aceituno et al., 2013a) examined the role played by diverse characteristics defining the board, with respect to the voluntary development of an integrated report and claimed that, greater board size and diversity, rather than increasing frictions and communication problems among board members positively influence the voluntary integration of corporate information in an integrated report. The influence of the legal (Frías-Aceituno, Rodríguez-Ariza, & García-Sánchez, 2013b) and cultural systems (Garcia-Sanchez et al., 2013) that characterize the country of origin of the company who adopts IR have also been explored in IR literature. Results revealed that companies located in civil law countries and where indices of law and order are high (Frías-Aceituno et al., 2013b) and companies located in societies with stronger collectivist and feminist values are more likely to publish integrated reports (Garcia-Sanchez et al., 2013).

In an attempt to explore the main determinant factors for IR in contrast with traditional sustainability reporting (TSR), Jensen and Berg (2012) conducted empirical research upon 309 companies' reports for the year 2008. The main objectives of their research were to examine the applicability of institutional theory to explain differences and similarities in TSR and IR and to measure the impact of identified variables and the mechanisms through which institutional pressures lead to the adoption of IR versus TSR. Results showed that IR correlates with the financial, economic, educational, labour and cultural determinants of a country, while political factors revealed no significant impact. Extending the empirical study of Jensen and Berg (2012), Ioana and Adriana (2013) conducted research with an objective to demonstrate

the political pressure over the corporate reporting and substantiate the economic and cultural impact upon corporate reporting. Their argument was based on the institutional theory and the emerging determinants of the voluntary adoption of IR systems were the political, cultural and economic factors, following Jensen and Berg (2012)'s theoretical perspective. Results revealed that while both political and economic factors maintain a positive correlation with the voluntary adoption of IR, surprisingly, a higher National Corporate Responsibility Index matches lower interest for IR, resulting in a negative correlation with the cultural determinant (Ioana & Adriana, 2013). These results were contrasting with Jensen and Berg (2012), where the correlation was positive for the cultural factor.

In the USA, based on an analysis of the initial public offerings (IPOs) of technology companies listed on NASDAQ,<sup>12</sup> Garanina and Dumay (2017) assessed the implications for intellectual capital and IR using the forward-looking intellectual capital disclosures in IPOs. Similarly, Kilic and Kuzey (2018b) analysed the determinants of forward-looking disclosures in the IR of 55 non-financial companies in the IR emerging practice examples database for the year 2014 using a disclosure index and a multidimensional analysis was conducted by Menicucci (2018), using a disclosure index in exploring forward-looking information in IR.

Relating to *integrated reporting quality* based studies, Setia et al. (2015) provided the first evidence on the impact of the introduction of IR regulation in South Africa, resulting in an increase in the extent of disclosure of human, social and relational, natural and intellectual capital information of the listed companies. Using 792 observations for 49 companies, Camodeca, Almici and Sagliaschi (2019) used a voluntary disclosure model to investigate the adoption of the IR framework as a strategic choice to signal intellectual capital. The influence of IR was examined by Terblanche and de Villiers (2019) and showed that companies preparing an integrated report disclose more IC information, and companies that exposed to international capital market pressures through cross-listing do not disclose more IC information.

In relation to the role of boards, Frías-Aceituno et al. (2013a) examined the *role of the board in the dissemination of integrated corporate social reporting* using the agency theory and the stakeholder theory as the theoretical lenses and Garcia-Sanchez et al. (2018) investigated the mediating role of the board of the directors and investor protection on managerial discretion in munificent environments and the propensity to disclose an IR. They found that when the board

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<sup>12</sup> NASDAQ is an American stock exchange, being the second-biggest stock exchange in the world.

is stronger and in countries with higher levels of investor protection, they would moderate the lower dissemination of voluntary information through IR in munificent contexts, and played an active role in constraining managerial discretion and improving the firm's transparency.

A few researches were found which *focused on IR assurance* (Chariri & Januarti, 2017; Green & Cheng, 2018; Haji & Anifowose, 2016a). An experimental study was conducted by Green and Cheng (2018) in examining 77 auditors' materiality judgements for non-financial performance information (NFPI) in terms of the two fundamental factors underlying IR, namely the level of strategic relevance associated with NFPI being assessed and the provision of a strategy map (a visual representation of linkages between the firm's strategic objectives) to auditors. Their results revealed that the presence of a strategy map potentially improves the efficient allocation of assurance resources. In a similar context of assurance of IR, Haji and Anifowose (2016a) assessed whether internal assurance matters in relation to the audit committee and IR practice. An empirical study of companies listed on the JSE<sup>13</sup> on the audit committee characteristics and IR was carried out by Chariri and Januarti (2017).

Some other sets of quantitative-based IR research have focused on the area of *investors' and other stakeholders' perspectives* (Adhariani & de Villiers, 2018; Arnold et al., 2012; Garcia-Sanchez & Noguera-Gamez, 2018; Garcia-Sanchez et al., 2018; Naynar et al., 2018; Rensburg & Botha, 2014; Serafeim, 2015) and stakeholder engagement and IR (Fasan & Mio, 2017; Garcia-Sanchez & Noguera-Gamez, 2017a; Gianfelici et al., 2018; Sierra-Garcia et al., 2015). With an aim to provide companies considering the adoption of IR with realistic expectations about their ability to replicate companies' success in attracting long-term shareholders, Serafeim (2015) examined changes in corporate reports and investor base across a large sample of US companies. Garcia-Sanchez and Noguera-Gamez (2018) examined whether firms' incentives in the disclosure of IR have a lower/higher impact than institutional investor protection pressures. Their results evidenced that firms' incentives are the main determinants of the voluntary disclosure of integrated reports and observed a substitutive role between institutional investor protection pressures and firms' transparency decisions.

Stakeholders' perspectives on whether IR is the silver bullet of financial communication have been obtained from 421 respondents across South Africa using a national online survey by Rensburg and Botha (2014). However, they found that very few stakeholders use the integrated

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<sup>13</sup> Johannesburg Stock Exchange (JSE)

reports as their main source of financial and investment information, and that these reports are seen as additional information. Similar results were found by Adhariani and de Villiers (2018) in a major Southeast Asian economy, in Indonesia, using the similar data collection tool of survey. Though report preparers and other stakeholders have a high level of interest towards IR, the low levels of knowledge regarding IR have caused the lack of demand from stakeholders Adhariani and de Villiers (2018).

To explore the emphasis placed on certain IR themes by financial services companies and stakeholders' perception of the importance of these themes to ascertain if a perception gap exists, Naynar et al. 2018 used mixed methods in collecting data from preparers and stakeholders. First, they used a documentation review of integrated reports to construct disclosure themes. Second, they used a questionnaire administered to gauge the perceived importance of the disclosure themes by a proxy group of sophisticated and unsophisticated investors and third, a factor analysis to determine the statistically significant disclosure themes. Results revealed that a perception gap has developed because companies do not fully understand what information is valued by their stakeholders and further found that differences in stakeholders' sophistication should be taken into account when companies prepare their integrated reports (Naynar et al., 2018).

In a similar ground on 'stakeholders', specifically in fostering stakeholder engagement, the role of materiality disclosure in IR was investigated by Fasan and Mio (2017). Their results indicated that industry and firm-level characteristics such as board size and diversity do play a significant role in the determination of materiality disclosures. Garcia-Sanchez and Noguera-Gamez (2017a) analysed the effect on information asymmetry on the disclosures of integrated reports and stakeholder engagement. Findings revealed that the integrated report effect is more statistically significant relative to information asymmetry in countries with strong investor protection. In the same academic journal, Sierra-Garcia et al. (2015) explored why companies are producing IR, paying special attention to the links with the stakeholder engagement and the assurance of the corporate social responsibility (CSR) report. Gianfelici et al. (2018) carried out an investigation through integrated reports to explore the relevance of nationality and industry for stakeholder salience in 31 European entities and 33 non-European entities using stakeholder salience theory to investigate the web of business-stakeholder relationships emerging from first integrated reports.

Extending quantitative *IR research towards the other organisational contexts*, Ghani et al. (2018) looked into the factors influencing IR practices among Malaysian publicly listed real property companies. With respect to the *integrated thinking related quantitative IR studies*, Venter et al. (2017) argued that there is a natural relationship between these two developments by linking the two global corporate developments, namely integrated thinking and the transparency of tax disclosures. They used the PWC's (2014) framework for measuring the transparency for tax disclosures and applied the framework to the selected sample of corporate reports in JSE-listed firms. Churet and Eccles (2014) identified that integrated thinking can be measured in terms of corporate attention to environmental, social and sustainability governance (ESG), positing that the higher the senior management attention to ESG, the greater the ability to manage sustainability issues on a strategic level and in their daily operations.

### **3.6.3.3 IR disclosure-related research**

The principle-based nature of the IR framework does not prescribe specific key performance indicators (KPIs), measurement methods or the disclosure of individual matters, while allowing flexibility to exercise judgement, given the specific and individual circumstances of different organisations in determining what is material to them and how those material matters are disclosed, including the application of generally accepted measurement and disclosure methods as appropriate (IIRC, 2013b).

Among the first studies to examine the disclosure of non-financial capitals within integrated reports, Setia et al. (2015) identified that research on IR-related disclosure is still in its infancy and provided evidence on the impact of the introduction of IR regulation, followed by limited guidance to preparers, on the nature and extent of disclosure of information of four types of capitals, human, intellectual capital, social and relationship and natural capitals by JSE listed companies for the years 2009/2010 and 2011/2012. They revealed a significant increment in the disclosure of social and relational capital compared to other three types of non-financial capitals.

Similarly, Haji and Anifowose (2017) explored the implications of IR reforms using a bigger sample of JSE listed companies over a three-year period (2011–2013) using a disclosure checklist developed for the three types of capitals, intellectual, social and relational and human. Their results showed a significant increase in the overall amount of corporate disclosures and particularly in intellectual and human capital disclosures. With relational capital disclosures, Haji and Anifowose (2017) reported a decreasing trend in contrast to the findings of Setia et



al. (2015). By focusing on how intellectual capital (human, structural and relational) disclosure in IR contributes to value creation over time, Melloni (2015) showed that integrated reports have a greater emphasis on relationship capital compared to structural and human capital, but limited quantitative and forward-looking information relating to these capitals were disclosed therein based on a sample of IIRC Pilot Programme Business Network participants for the time period from 2011 to 2013.

In the USA, Garanina and Dumay (2017) also investigated the extent to which managers and owners disclose forward-looking IC (capitals such as human, customer, information technology, processes, research and development, strategic) in initial public offering (IPO) prospectuses of technology companies listed on the NASDAQ.<sup>14</sup> They found that these IPO prospectuses contain significant amounts of IC disclosures, ensuring they are a valid form of disclosure to investigate the impact of reducing IC information asymmetry because they contain significant amounts of forward-looking non-financial information about the company's development. Similarly, Kilic and Kuzey (2018b) analysed the determinants of forward-looking disclosures in the IR of 55 non-financial companies in the IR Examples Database for the year 2014 using a forward-looking disclosure index consisting of 15 quantitative disclosure items and 15 qualitative disclosure items. These authors determined that the majority of the entities tended to provide qualitative forward-looking disclosures rather than quantitative. Using the same sample base as of December 1, 2015, but involving a bigger sample size, Menicucci (2018) explored the forward-looking information of integrated reports using a disclosure index consisting of 27 information items in 282 integrated reports available in the IIRC database.

Sukhari and de Villiers (2018) examined how the introduction of IR changed strategy and business model disclosures using a sample of top 20 JSE listed companies in the 2014 E&Y quality ranking, using a disclosure index developed for business models and strategy disclosure. In judging the integrated reports, E&Y made use of the Consultation Draft (IIRC, 2013a) and the study analysed the disclosure in 2008 and 2014, before and after the adoption of the King III and IR requirements. They found that companies disclosed extensive information regarding their BM and strategy by 2014, in contrast with virtually no such disclosures in 2008. They also identified some disclosure criteria which still fell short of linking all of the company strategic goals to their BM; disclosure of resource allocation plans, intellectual capital, factors that impact competitive advantage, ability of

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<sup>14</sup> NASDAQ is an American stock exchange, being the second-biggest stock exchange in the world.

the BM to adapt to changes and market differentiation; and distinguishing among short-, medium- and long-term strategic goals.

Using a sample of 23 best performers on the JSE sustainability reporting index (SRI) index for the years 2010 and 2011, van Zyl (2013) aimed to determine whether the adoption of IR by large private sector companies in South Africa led to an improvement in the quality of sustainability-related information disclosed, based on an evaluation matrix for sustainability disclosures. They found that although many companies are claiming to be creating integrated reports, the level of integration is still very low and only a few companies have incorporated or understood the importance of environmental and social sustainability in achieving long-term success. In exploring the implications of IR for social investment of four multinational corporations for the period from 2009 to 2013, Adams et al. (2016) drew from the guidelines produced by the United Nations Global Compact Principles for Social Investment Secretariat (PSIS). Their results indicated that there has been an identifiable shift in reporting on social investment, while there is greater focus on establishing the linkages between the multiple (social, environmental and financial) dimensions of their business activities.

Barth et al. (2017) constructed a proxy for integrated reporting quality (IRQ) identifying 11 themes from the IR framework, which were consistent across the four annual score sheets (2011 to 2014) of EY Excellence in Integrated Reporting Awards, to examine the capital market effects of IRQ. They revealed that the content elements connectivity, stakeholder relationships, materiality and conciseness are the most important drivers of their main results across liquidity, firm value and expected future cash flows. Corresponding to Barth et al. (2017), using a sample of 443 firm-year observations in JSE listed companies over the period from 2009 to 2012, Zhou et al. (2017) found that the level of alignment of integrated reports with the IR framework is beneficial to the capital markets in that it is negatively associated with analysts' earnings forecast error and marginally negatively associated with analysts' earnings forecast dispersion, suggesting the quality of integrated reports affects the information environment of reporting companies. The measure of IRQ in Zhou et al. (2017) was based on a coding framework developed on IR Prototype Framework issued by the IIRC in October 2012.

Content elements of the IR framework have been very popular among researchers in IR disclosure-based studies. Some early evidence of content element disclosures was found in Lipunga (2015). In investigating the level of IR in developing countries, they analysed 12 companies listed in the Malawi stock exchange to create awareness and impetus for IR in

Malawi by highlighting the existing gaps in the IR framework and giving the current IR status by the Malawian listed companies. Lipunga (2015) found that the IR framework is based on the Code of Corporate Governance that contains less detailed guidance with regard to IR.

In a similar line of research, Doni et al. (2016) used nine semantic categories correlated to the key content used in content analysis of IR. They named them ‘the key issues of IR’, and they were developed mainly on the basis of the frameworks issued King Report on Governance for South Africa and King Code of Governance Principles in 2009 (King III, 2009); IRC SA Discussion paper in 2010, IIRC Discussion paper in 2011 and Deloitte's study in 2012. Results exhibited a wide range of diversity in the type and quantity of information reported, confirming the fact that the lack of a precise framework and IR standards produces a high diversity of IR practices (Wild & van Staden, 2013). In determining whether companies provide genuine IR, it is necessary to observe whether the statement published contains a set of key performance indicators. Frias-Aceituno, Rodríguez-Ariza and García-Sánchez (2014) followed IIRC (2011) and AECA (2011) in identifying the items required for the document published by a company to be considered an integrated statement. Based on an IIRC discussion paper (2011), Marx and Mohammadali-Haji (2014) also used an IR checklist to provide evidence regarding the IR practices at the 40 largest listed companies in South Africa and found that although IR is evolving, inconsistencies still exist regarding the process to follow, format, content, and value thereof.

Focusing on content elements of IR, Lee and Yeo (2016) developed a self-constructed measure as their main proxy for a firm's voluntary disclosure in examining the association between IR and firm valuation using a sample of 822 firm-year observations for the period 2010–2013. They evaluated the extent to which the information disclosed in the integrated report address the questions as shown in each content element provided in the 2013 IR framework. They found that the positive association between firm valuation and IR is stronger in the firms with higher organisational complexity, suggesting that IR improves the information environment in complex firms, such as firms with high intangible assets, firms with multiple business segments and large firms.

Using a survey-based study, Stent and Dowler (2015) contributed to an understanding of IR disclosures by assessing 2011 annual reports and related online reporting practices for four New Zealand ‘best practice reporting entities’, using an IR checklist based on the prototype framework developed by the IIRC (IIRC, 2012). Their findings suggested that current reporting

processes lack the integration, oversight and due attention to future uncertainties required by IR. While this appears to be a relatively small gap, systems-thinking principles indicate that these deficiencies may be critical to sustainability and financial stability, the stated aims of IR. Similarly, Akhter and Ishihara (2018) assessed the gap between IR and current corporate reporting in the UK based on 5 companies in UK FTSE 100 companies using a disclosure checklist contains 43 items under eight Content Elements of the IIRC Framework (2013b). Findings represented a moderate level of compliance in a regulatory environment where preparation of integrated reports, as per the IIRC, is not mandatory and in general, the reports lack connectivity and less amount of information is disclosed in some areas, such as Future Outlook, Opportunities, or Material issues. Herath and Gunarathne (2016) proposed a modified checklist for Stent and Dowler's (2015) to assess the same gap between IR and current corporate reporting in the Sri Lankan context. Also using the same checklist of Stent and Dowler's (2015), Sofian and Dumitru (2017) carried out a content analysis of eight European listed companies in the IIRC examples database for the year 2015.

Among the empirical studies which have focused on the level of adoption of both content elements and guiding principles of integrated reports, Wild and van Staden (2013) provided initial evidence and insights into the early-stage development of the new reporting mode of IR. Integrated reports of 58 companies included in the IIRC examples database as at 2013 were analysed for company information, report information and report content, and evaluated as to the extent these adhere to the IR Guiding Principles, Content Elements, and the Multiple Capitals model. Their study revealed that early integrated reports are in general lengthy rather than concise but fail to adhere to all the Guiding Principles. Their focus emphasises soft (general) measures like Strategy, Operating Context and Organisational Overview rather than hard (specific) measures like Performance and Future Outlook, with a generally low level of responsiveness to the principle of Stakeholder Inclusiveness. The reports cover four of the six capitals suggested. In Ruiz-Lozano and Tirado-Valencia (2016), analysed the state of affairs in the level of attention of the guiding principles of IR in the industrial companies which have adopted this initiative in their communications concerning the achievement of a sustainable environment. In so doing, they developed 32 items in the consultation draft of the IR conceptual framework released by IIRC (2013a) to analyse the sample of 21 industrial companies in IIRC database.

Haji and Anifowose (2016b) examined the extent and quality of IR practice using an IR checklist developed based on normative understanding of existing IR guidelines following the

introduction of IR requirement in South Africa. They used a sample of 82 companies, producing total firm-year observations of 246 cases over the three-year period 2011 to 2013. In constructing their IR checklist, though reference was made to existing versions of the IIRC frameworks (such as IIRC Discussion paper, 2011; IR framework, 2013b, IIRC Basis for conclusions, 2013; IIRC Summary of significant issues, 2013), their analysis of guiding principles and content elements was based on the IRC SA Discussion paper (2011) and King III (2009) of South Africa. Their results showed a significant increase in the extent and quality of IR practice. However, despite the increasing trend towards individual IR categories such as connectivity of information, materiality determination process and reliability and completeness of the integrated reports, and evidence of both symbolic and substantive IR practice, they conclude that the current IR practice is largely ceremonial in nature, produced to acquire organisational legitimacy.

In a recent study, Liu et al. (2018) developed and applied a normative benchmark against which compliance with the IR framework and the extent to which integrated reports make visible how organisations create value can be evaluated. They used GRI Guidelines as the point of reference for the construction of the IR disclosure index, with 941 total disclosure items, of which 408 denote six capitals, 478 represent nine content elements and 55 items explain seven guiding principles and then applied in five companies that are expected to be superior integrated reporters. Findings pointed out that the integrated reports analysed differ significantly in the extent to which value creation stories are made visible, despite some of the companies promoting having actively engaged with IR as participants of the IIRC Pilot Programme Business Network, and concluded that all selected companies performed poorly in comparison to the normative benchmark.

### **3.7 Chapter summary**

The aim of this chapter was to explore the status of research on IR by conducting a comprehensive review of existing IR literature and to uncover research gaps and expand the body of knowledge on IR. The first stage of the LR reviews 168 IR articles published in 27 accounting journals (see Table 3.2 and Appendix A) and 29 finance/management journals (see Table 3.3 and Appendix B) in ABDC over a 10-year period (2009 to mid-2018), provides an overview of the most recent and updated high-quality IR research discussed under different research topics, research settings, research methods, data analysis tools and research theories. Without limiting the analysis to highly ranked accounting and finance/management academic

journals in ABDC, this LR analysis also brings out the evidence from some other academic journals, professional reports and conference proceedings in the second stage of the review.

The present LR revealed more empirical research compared to conceptual studies on IR. Surprisingly, this is contradictory to what Dumay et al. (2016) and Haji and Hossain (2016) brought out in their studies, in which they stated that most published IR research presents normative arguments for IR and that there is little research examining IR practice. Hence, the present study maintains that the IR research agenda has now broadened and opened up by capturing a considerable number of studies probing into IR in practice, published during the 2015 to 2018 period, that is, after the incorporation of the IR framework in December 2013.

Though the present study provides evidence of the availability of more empirical IR research than the conceptual research on IR, the present study still stands in the position that more research is needed (Setia et al., 2015) to explore how companies disclose the IR content based on the IR framework.

## **Chapter 04**

### **Theory**

#### **4.1 Chapter introduction**

The aim of this chapter is to provide useful insights into the theories that have been used by prior studies of IR and to justify the theoretical lens adopted in the present study. The structure of this chapter is as follows. Section 4.2 provides an overview for the different theoretical perspectives used in IR research. Section 4.3 provides an overall understanding of the theoretical perspectives used by the past IR scholars. Section 4.4 provides a discussion of the theories used in the present study as the theoretical bases. Section 4.5 concludes the theory chapter.

#### **4.2 IR theories**

The notion of IR within accounting research has been substantially influenced by a number of accounting and management theories, comprising institutional theory, stakeholder theory, agency theory, legitimacy theory, signalling theory, diffusion of innovation theory, practice theory, impression management theory, political cost theory, and proprietary cost theory. Section 3.5.6 of Chapter 3 has provided a frequency analysis of the different theories used by different scholars in ABDC-ranked accounting and finance/management journals (see Table 3.13 also). These different theoretical perspectives provide useful insights into understanding the integration, interaction, interpretations, implications and constraints among various aspects of IR, such as stakeholder value creation, integrated thinking, value creation through six capitals, governance, performance, risks, strategy and business model, etc. Further, these theories have emphasised the importance of transparency about quantitative and qualitative information to predict the impacts of the development of business activity (Frias-Aceituno et al., 2014).

Rezaee (2016) connected a multi-level stakeholder approach in theory evolution and further claimed that theories have been developed in examining the role of business organisations in society and their interactions with their constituencies, including shareholders, creditors, suppliers, customers, employees, government, society and the environment, and has also claimed that theories are interrelated and compatible. This stands in sharp resemblance to the value creation concept underpinned in the IR framework (2013b, p.11). The two interrelated aspects of value, namely value created for the organisation itself and value created for others

(stakeholders and society at large), are linked through a wide range of material interactions, activities and relationships. However, according to the debate by Hoque, Covaleski, and Gooneratne (2013), a major problem confronting a researcher is which theoretical perspective is most appropriate for a particular empirical analysis, while acknowledging the different epistemological and ontological assumptions underpinning each of the theories. However, in a business sustainability research, Rezaee (2016) draws on the fact that theories are interrelated and compatible, and thus individually and collectively address different dimensions of sustainability performance in creating stakeholder value.

### **4.3 Theories used by past IR researchers**

This section, in particular, is an attempt to address one of the future research questions in Jensen and Berg (2012), namely, ‘Are any of the commonly used theories [other than the theory used in their study] able to explain IR activity?’ Through a theoretical lens, this section provides a synthesis of theories used in IR and its potential and its practical implications as presented in the following subsections (theory presentation follows no chronological order).

#### **4.3.1 Agency theory**

From the point of view of agency theory, a fundamental assumption is that disclosure of information through corporate reports is used for decision-making by owners (shareholders and other investors) and managers to monitor and manage managerial actions (Frias-Aceituno et al., 2014). Based on the results in section 3.5.6 of Chapter 3, the majority of the *agency theory-based* IR studies were featured in finance/management journals (8.8%, Table 3.13) (Fasan & Mio, 2017; Frías-Aceituno et al., 2014, 2013a; Garanina & Dumay, 2017; Garcia-Sanchez & Noguera-Gamez, 2017a, 2017b; Garcia-Sanchez et al., 2018; Melloni et al., 2016; Pistoni et al., 2018) and 4.3% of the agency theory-based quantitative studies appeared in accounting journals (Adhariani & de Villiers, 2018; Barth et al., 2017; Haji & Anifowose, 2016a; Kilic & Kuzey, 2018b). It was also significant to note that except for Briem and Wald (2018), a qualitative study in an accounting journal, almost all other accounting scholars have used the agency theory as the theoretical lens to examine their study results using quantitative research methodologies. Except for these, some other IR scholars have also used the agency theory in some other journals (Chariri & Januarti, 2017; Menicucci & Paolucci, 2018; Pavlopoulosa, Magnisa, & Latridis, 2017; Ruiz-Lozano & Tirado-Valencia, 2016; Vorster & Marais, 2014).



With respect to integrated reporting, the disclosure of voluntary information has identified it as a common as well as a controllable mechanism among commercial organisations, in order to mitigate the agency costs and political costs and to reduce information asymmetries (Fasan & Mio, 2017; Garcia-Sanchez & Noguera-Gamez, 2017a; Pistoni et al., 2018) between the interests of managers (preparers' perceptions towards motivation for reporting) and investors and other stakeholders (users' perceptions towards demand for corporate information for decision usefulness, accountability and information asymmetry) (Adhariani & de Villiers, 2018) as well as extending the same role for the agency relationship between the board of directors and other stakeholders (Frías-Aceituno et al., 2013a; Garcia-Sanchez et al., 2018). By further extension, and consistent with the agency theory, the empirical study results of Haji and Anifowose (2016a) showed a significant positive association between the overall effectiveness of the audit committee function and IR practice and also found that specific aspects of the audit committee function, such as committee meetings and authority, significantly enhance the extent and quality of IR practice. Focusing on reducing the information asymmetry associated with agency theory, Garanina and Dumay (2017) investigated the extent to which managers and owners disclose voluntary information, particularly the intellectual capital in initial public offering (IPO) prospectuses. By contributing to the understanding of the potential impact of IR, scholars have found that if non-financial disclosures contained in an integrated report are forward-looking and sustain a better assessment of the future performance of companies, they have an impact on reducing information asymmetry and then IR may have value relevance to the firm (Garanina & Dumay, 2017; Kilic & Kuzey, 2018b). Some academic researchers have oriented their work towards analysing the role of the voluntary disclosure of information in the reduction of the cost of capital to mitigate the agency problem (Barth et al., 2017; Frias-Aceituno et al., 2014; Garcia-Sanchez & Noguera-Gamez, 2017b).

According to Ruiz-Lozano and Tirado-Valencia (2016), companies disclose information to the extent that the benefits outweigh the associated costs in agency relationships. On applying agency theory, Frias-Aceituno et al. (2014) confirm that the IR seeks to avoid and reduce the information asymmetries and allows companies more access to capital markets with a lower cost of capital. The theoretical justification for their fundamental empirical finding for the positive relation between company size and the information disclosure was that increasing company size creates a greater need for external capital funds and causes a conflict of interest between shareholders, creditors and managers, which would consequently lead to increased agency costs. As a means of reducing these agency costs, companies adopt voluntary

information disclosure. Corresponding to the above, the relationship between the degree of voluntary disclosure of information and the level of profitability has also been found positive by Frias-Aceituno et al. (2014), theorising that managers of profitable companies use external information for personal advantage, such as assurance of job position and increased level of remuneration.

#### **4.3.2 Legitimacy theory (LT)**

LT has been used as the theoretical ground in several IR studies. Both accounting and finance/management scholars (based on the section 3.5.6 analysis in Chapter 3) have given somewhat equal attention to the use of *legitimacy theory* in their IR-based studies, showing a 6.6% (Adhariani & de Villiers, 2018; Dumitru & Guse, 2017; du Toit, 2017; Haji & Anifowose, 2016a, 2016b; Melloni et al., 2017; Setia et al., 2015; Silvestri et al., 2017) in accounting journals and a 6% (Beck et al., 2017; Fasan & Mio, 2017; Haji & Anifowose, 2017; Lai et al., 2016; Rivera-Arrubla & Zorio-Grima, 2016; van Zijl et al., 2017) in finance/management journals. Notably, most of them were fell into the category of quantitative in terms of the research methodology, despite the different fields of the journals. Despite the above, several other studies have also drawn from LT to examine the nature of IR practice. For example, Brusca, Labrador and Larran (2018), Menicucci and Paolucci (2018), Ruiz-Lozano and Tirado-Valencia (2016), and Velte and Stawinoga (2017) were found in other journals.

As identified by Lai et al. (2016), according to LT, a firm's legitimacy is threatened whenever there is a disparity between its actions and the expectations of the social system for its conduct, and managers can influence external perception about the organisation by means of communication strategies. Lai et al. (2016) investigated whether the decision to adopt an IR stems from the need to repair legitimacy threats and found that no legitimacy pressures play a role in explaining IR adoption and concluded that corporate engagement in IR is not a matter of strategic legitimisation (Lai et al., 2016). Haji and Anifowose (2017) found that companies use specific disclosure strategies to respond to external pressures (strategic legitimacy), and that such disclosure strategies are increasingly becoming institutionalised across and within various industries (institutional legitimacy). The theoretical implication of Haji and Anifowose (2017) was that the strategic and institutional perspectives of LT are complementary, rather than conflicting, and dovetail to explain corporate reporting practices. Beck et al. (2017) used the legitimacy lens to explore an organisation's journey into non-financial reporting, which was initially motivated by a legitimacy crisis in public confidence to the present situation with

the organisation embracing IR, in their article ‘In pursuit of a ‘single source of truth’: from threatened legitimacy to integrated reporting’. Their argument was that if an entity has already developed integrated reporting processes, then is the entity’s motivation for joining IR solely for strategic legitimacy reasons (i.e. to ensure their agenda is met) or is it to provide a relevant information platform to investors? (Beck et al., 2017). In the Indonesian context, Adhariani and de Villiers (2018) stated that Indonesian companies reported and audited social and environmental matters, following ‘threats to the company’s legitimacy and ongoing survival’.

Unlike prior studies, Haji and Anifowose (2016a, 2016b) and Setia et al. (2015) have contrasted symbolic versus substantive legitimacy-seeking behaviours to explain IR practice. In particular, these studies attributed the ceremonial nature of IR practice to the framing of existing IR regulations in South Africa, as symbolic conformity with IR guidelines is enough to acquire organisational legitimacy. With an objective to examine whether the integrated reports prepared by the top 25 JSE listed companies are providing the information intended of an integrated report, Setia et al. (2015) used LT to formulate two alternative propositions on how these companies may disclose information relating to a number of capitals. These two propositions are informed by two micro-legitimisation strategies, namely substantive management and symbolic management (Setia et al., 2015). Results found that companies disclose significantly more information on social and relationship capital in their integrated reports in 2011/2012 compared to annual reports in 2009/2010, whereas a statistically significant increase in the extent of disclosure was not observed for the rest of the categories, suggesting that the sample companies adopt symbolic management as a legitimacy strategy, as they attempt to merely follow King III Code in preparing an integrated report.

While most of the studies focused on integrated report preparers’ legitimacy, Dumitru and Guse (2017) focused on the organisational legitimacy gained by a standard setter, the IIRC, using a qualitative approach in analysing all the IIRC documentaries and commentaries. In so doing, they considered the legitimacy granted by all the categories of stakeholders and also provided the sources of legitimacy that can be explored in future by IIRC in order to overcome the possible threats to the IIRC’s legitimacy.

#### **4.3.3 Signalling theory and voluntary disclosure theory**

In terms of the *signalling theory*, the findings in section 3.5.6 in Table 3.13 reveals that 5.5% of the scholars in finance/management journals (Albertini, 2018; Frías-Aceituno et al., 2014;

Garcia-Sanchez & Noguera-Gamez, 2017b; Mmako & van Rensburg, 2017; van Zijl et al., 2017) and 2.6% of the accounting scholars (Arguelles et al., 2015; Kilic & Kuzey, 2018b; Melloni et al., 2017) have used signalling theory as the theoretical base to ground their study findings. Menicucci and Paolucci (2018) is found with similar results in non-ABDC journals. Melloni et al. (2017) stated that signalling theory is posited in voluntary disclosure theory. *Voluntary disclosure theory* has used by 2.6% of the IR scholars only in accounting journals (Melloni et al., 2017; Simnett & Huggins, 2015; Zhou et al., 2017).

Besides agency theory, information disclosure in signalling theory is assumed as a signal conveyed to the market in order to reduce information asymmetries, optimize financing costs and increase the value of the firm (Frias-Aceituno et al., 2014). It is further argued that as the agency theory enables the company to raise its level of investment through lower cost of capital, signalling theory effects would contribute positively to economic growth, job creation and quality of life (Frias-Aceituno et al., 2014). They argued that profitable companies are more encouraged to disclose information to distinguish themselves from others, to raise capital at the lowest possible cost and to prevent a reduction in their share price. Hence, they concluded that profitability has become a signal or an indicator to provide additional information for the market to attract quality investments and reduce information asymmetries.

From the perspective of CSR/ESG disclosures, signalling theory suggests that firms may attempt to signal ‘good news’ through the use of mandatory financial reports and voluntary reporting of non-financial CSR/ESG sustainability performance and also suggests that firms with superior sustainability financial and non-financial performance have more incentive to disclose their superior performance and choose to signal their sustainability achievement by issuing sustainability CSR/ESG reports in addition to their mandatory financial statements (Rezaee, 2016). In the context of IR, in searching for the content elements of integrated reports in the chairmen’s statements of JSE listed companies, Mmako and Rensburg (2017) reported that the attributes of the signalling theory were clearly evident from the disclosures contained in the chairmen’s statements of high-performing and poor-performing companies, whereas high-performing companies are more motivated to signal high quality in absolute and clear terms. Using the same qualitative research methodology, Albertini (2018) answered calls in qualitative research to examine the various qualities signalled in exploring multi-capitals reporting, how the connectivity between multiple capitals is achieved and the role of the multiple-capital concept in identifying business risks and opportunities in the sustainability field. Not surprisingly, their results confirmed that, from a signalling theory perspective,

actions taken by preparers were driven by the objective to intentionally communicate positive qualities about the companies; however, not all the positive information disclosed was useful as signals since preparers may inundate users of reports with unobservable actions that cannot be verified by those users. In exploring whether there is any value relevance of the early-moving signal for the early-moving firms in IR adoption (through the engagement in the IIRC pilot programme), whether the value relevance of these disclosures increase over time and whether enhancing disclosures in addition to signalling voluntary adoption is rewarded by the market, Arguelles et al. (2015) employed the signalling theory. Melloni et al. (2017) also stated that voluntary disclosure is used as a signal to reveal superior performance and lending support to incremental information based on signalling theory.

Prominent reporting on key financial information is essential for reducing the risk of adverse selection and lowering the cost of capital (Garcia-Sanchez & Noguera-Gamez, 2017b; van Zijl et al., 2017) and more non-financial disclosures are required to reassure investors that risks are being managed, reduce information asymmetry and manage the effects of environmental issues on the cost of capital (van Zijl et al., 2017). From a signalling theory perspective, the results imply that information asymmetry is low because stakeholders have a detailed understanding of the relevant strategic considerations through both financial and non-financial information. Thus, investors should be aware of the use of disclosure policies to enhance credibility and confidence about financial and non-financial information as a signal for future investment decisions (Garcia-Sanchez & Noguera-Gamez, 2017b). Supportive results were brought out by Albertini (2018) as to voluntary disclosure being a signal conveyed to the market in order to reduce information asymmetries, optimize financing costs and increase the value of the firm. To Kilic and Kuzey (2018b), another theory used to understand the determinants of the forward-looking disclosure is signalling theory.

Melloni et al. (2017) stated that signalling theory is posited in voluntary disclosure theory. Supported by voluntary disclosure theory, which argues that a consequence of the enhanced disclosures and resulting reduction in information asymmetry which increase investors' trust and confidence and inflow of financial capital will have the potential to lower the capital cost Simnett and Huggins (2015). Zhou et al. 2017 extended the test of voluntary disclosure theory into the context of IR, which integrates financial information and non-financial information, and found some evidence consistent with that voluntary disclosure theory.

#### 4.3.4 Impression management (IM) theory

In the context of corporate reporting, IM is the tendency for the organisation to use data selectively and present them in a favourable light to manipulate audience perceptions of corporate achievements (Clatworthy & Jones, 2006). Similarly, in the context of assessing the intellectual capital disclosures offered in the IR, it was evidenced in Melloni (2015) that intellectual capital disclosures offered in the IR are used by managers opportunistically to advance their image. The present study found that only 2.6% (see Table 3.13 in section 3.5.6 in Chapter 3) of the accounting scholars (du Toit, 2017; Haji and Hossain, 2016; Melloni et al., 2017) and 2.2% of the finance/management scholars (Melloni, 2015; Melloni et al., 2016) have used *impression management theory* as the theoretical lens in their IR studies. It was also noted that out of these, only Haji and Hossain (2016) was based on a qualitative approach.

Haji and Hossain (2016) drew from the IM theory to explain how companies report and integrate the emerging multiple-capitals framework in an organisational reporting practice following the introduction of an ‘apply or explain’ IR requirement in South Africa. Drawing from five IM techniques, namely, rhetorical, manipulation, thematic manipulation, selectivity, and emphasis in visual presentation and performance comparisons to explain disclosure and integration of multiple capitals in international IR framework, Haji and Hossain (2016) undertook a critical discourse analysis to determine the emerging themes used in organisational reports on the interdependencies and trade-offs between multiple capitals, or components of a capital. They concluded that an embedded multiple-capital framework has not really improved the substance of organisational reports, justifying the existence of generic disclosures rather than company-specific disclosures and presence of defending, promoting, organisational reputation rather than recognising how organisational actions, or inactions, impact multiple capitals.

Related to the IM strategy labelled as ‘thematic manipulation’, in the context of business model disclosures, Melloni et al. (2016) investigated the informativeness of BM disclosure questioning whether companies adopt IM strategies by manipulating the tone of the BM disclosures provided in their reports and, in particular, on the use of a positive tone in the disclosure provided in an attempt to create a ‘good’ image of the firm. Extending the IM studies to IR concepts, such as conciseness, completeness and balanced report, from a sample of IR early adopters, Melloni et al. (2017) showed that in the presence of a firm’s weak financial performance, the IR tends to be significantly longer and less readable (i.e., less concise), and

more optimistic (i.e., less balanced). Additionally, they found that firms with worse social performance provide reports that are foggier (i.e., less concise) and with less information on their sustainability performance (i.e., less complete). Based on the IM strategies, their results implied that IR early adopters employ quantity and syntactical reading ease manipulation as well as thematic content and verbal tone manipulation as impression management strategies (Melloni et al., 2017). In the context of the readability of the integrated reports, strategies of IM theory have been evaluated by du Toit (2017), in terms of how easy it is to read and understand an integrated report, and whether the complexity of the language used in integrated reports facilitates or hampers IM. Their findings suggested that IR is perhaps not used for the purpose it was intended for, namely, informational content, but rather as a means to manage impressions of the company (du Toit, 2017).

#### **4.3.5 Theory of diffusion of innovation (DOI)**

The application of the theoretical foundation of *theory of diffusion of innovation* (DOI) was only used by 3.4% of the IR researchers in accounting journals (as based on the section 3.5.6 analysis in Table 3.13). And all these studies were based on a qualitative research approach (Briem & Wald, 2018; Gunaratne & Senaratne, 2017; Juma et al., 2018; Robertson & Samy, 2015). Ioana and Adriana (2014) was found in other journals.

Rogers (2003) identified four main elements in the diffusion process: innovation, the communication channels through which the innovation is diffused, time, and the social system. Robertson and Samy (2015) used the characteristics of DOI to investigate how perceptions of IR as offering a relative advantage over existing practices, its compatibility to existing organisational values, past experiences and needs and its perceived complexity impacted on the adoption and diffusion of IR. Based on the demand-pull and supply-push sides of the DOI, Gunaratne and Senaratne (2017) found that in the diffusion stage, most of the adopters are driven by fashion setting, which is mainly attributable to the active propagators in the supply side of IR diffusion in an emerging South Asian nation, Sri Lanka. Their findings also provided that firms have not internalised the IR principles, with the danger of IR becoming a mere reporting mechanism.

In a similar developing country setting, Juma et al. (2018) identified DOI as the most appropriate in investigating the diffusion of IR among listed firms since IR is still new in the accounting arena especially in developing countries. In Juma et al. (2018), it was found that

the use of expansion diffusion (this focuses on how the total number of adopters grow gradually) is a more relevant type of diffusion process in explaining why firms in developing countries are slow at adopting IR. From a diffusion of IR assurance perspective, Briem and Wald (2018) argued auditors are change agents who have a significant role in supporting companies in the decision to adopt and implement this new reporting format, IR.

#### **4.3.6 Political theory and Theory of proprietary costs**

Notwithstanding the above explanation of theoretical IR studies, Table 3.13 in section 3.5.6 shows that only finance/management journals have drawn theoretical bases from the *political cost theory* (2.2% with Frías-Aceituno et al., 2014; Garcia-Sanchez & Noguera-Gamez, 2017b) and the *theory of proprietary cost* (3.3% with Frías-Aceituno et al., 2014; Garcia-Sanchez & Noguera-Gamez, 2017b; Pistoni et al., 2018). Ioana and Adriana (2013) and Ruiz-Lozano and Tirado-Valencia (2016) were found in other IR journals.

This theory assumes that the performance of companies depends on the economic, political and social environment in which they operate, which influences them when deciding how to respond to the demands of the stakeholders (Ruiz-Lozano & Tirado-Valencia, 2016). According to Frias-Aceituno et al. (2014) and Garcia-Sanchez and Noguera-Gamez (2017b), the main assumption of the political theory paradigm was companies voluntarily disclose corporate information in order to reduce political costs, such as taxes and fees, and to obtain political benefits, such as subsidies and government actions in favour of the company, with an objective of preventing the transfer of corporate wealth to the public and/or political sector. As they stated, companies that are more exposed to regulation, nationalisation, confiscation will be more likely to disclose information in order to reduce these political costs. In examining the explanatory factors of IR, based on the four principle theories of information disclosure-agency theory, signalling theory, political cost theory and proprietary cost theory, Frias-Aceituno et al. (2014) found that companies enjoying monopolistic situations are less likely to publish integrated reports containing information relevant to decision-making. The decision not to publish such a report would be aimed at preserving the abnormal profits currently being obtained by such entities (Frias-Aceituno et al., 2014). These authors claimed that these results are extremely important and should be taken into consideration by IIRC because the information disclosed should be useful for decision-makers and the opportunistic use of information should be avoided (Frias-Aceituno et al., 2014).



#### 4.3.7 Practice theory

Based on the literature review approach study sample (as described in section 3.5.6 with Table 3.13), one qualitative IR study was found in each of the accounting (Abhayawansa et al., 2018) and finance/management (Lodhia, 2015) journals that used *practice theory* as the theoretical base.

Lodhia (2015) used the practice theory as the theoretical lens to explore the transition to integrated reporting by a customer-owned bank to identify the drivers of transition, and thereby provide insights for other businesses seeking to engage in integrated reporting. Using the practice theory, that author described how integrated reporting develops as a practice in a specific context. Lodhia (2015) argued that an array of activities lead to the emergence of integrated reporting as a practice and those activities include a practical understanding of prior experience in managing and reporting social, environmental and economic issues, and involvement in corporate reporting surveys and studies which provide the foundation for the transition from current reporting practice to integrated reporting. He further argued that the rules of the practice which prescribe how things are to be done, such as company and financial reporting requirements, and voluntary reporting aspects, such as sustainability reporting requirements, the IIRC integrated reporting framework would shape the integrated reporting transition (Lodhia, 2015). The top management's acknowledgement of the fact that ethical values and organisational structures were designed with embedded economic, social and environmental issues, rather than treating these as separate silos, ensuring the responsibility of every operational team member towards economic, social and environmental issues has also been considered as facilitation for the transition to integrated reporting (Lodhia, 2015).

Abhayawansa et al. (2018) drew upon practice theory to understand whether integrated reports meet the information needs of analysts. They found that improvements resulting from the adoption of integrated reporting are not relevant to analysts, as the reports do not provide the information required by analysts in sufficient detail or preferred format, and thus concluded that IR has not connected with analysts' practice of firm assessment and the behaviours that are acceptable to them (Abhayawansa et al., 2018).

#### 4.3.8 Actor network theory (ANT)

Similar to above, section 3.5.6 (in Chapter 3) revealed that one article from each of the journal categories (accounting and finance/management) presented their findings based on the *Actor network theory*. These were Rowbottom and Locke (2016) and Strong (2015), respectively.

Tracing the emergence of IR, with an aim to understand the diverse range of prior concepts that shifted interest towards IR, Rowbottom and Locke (2016) undertook a study to interpret its informal use by firms to its interpretations and standardisation of IR based on IIRC framework (2013). Using the ANT, this study interprets the action through interviews with key individuals, official documents, publications and integrated reports circulated by IIRC. Interviews were conducted at two stages in 2012 and corporate reports selected and presented by the IIRC on the Emerging Integrated Reports Database by the end of 2012 were analysed.

Following the same purpose to examine the emergence of IR, particularly to critically examine the emergence of IR as “the” solution to the global criticisms prevailing about the inappropriateness of mandatory corporate and voluntary sustainability reporting, Strong (2015) adopted an ANT lens to reveal a holistic view of the IR development process in Australia. Strong (2015) considered the diverse interests (civic interest, market and industrial interests), key issues and converging views of the actors in the IR field. That study concluded that a matter of public concern relates to the expectation of stakeholder inclusiveness but ultimately the development process continues the domination of market interests.

Despite the above-mentioned theories, this study found some other theories which have been used by previous IR scholars, such as Bourdieu’s theory of practice (Al-Htaybat & Alhtaybat, 2018), information asymmetry theory (Garcia-Sanchez & Noguera-Gamez, 2017a), behavioural decision theory (Velte & Stawinoga, 2017), resource dependency theory (Garcia-Sanchez et al., 2018; Velte & Stawinoga, 2017), finance theory (Rambaud & Richard, 2015), behavioural finance theory (Arnold et al., 2012), Jensen’s (2001) theory of enlightened value maximisation (Parrot & Tierney, 2012), Sztompka’s (1999) theory (Chaidali & Jones, 2017), Laughlin’s (1991) theory of organisational change (McNally & Maroun, 2018; Stubbs & Higgins, 2014), systems theory (Stent & Dowler, 2015), resilience theory (Coulson et al., 2015) and economic theory (Beattie & Smith, 2013), positivist theory (Oliver et al., 2016), positive accounting theory (Pistoni et al., 2018) and some other models and frameworks, such as Sociology of Worth (SOW) framework (van Bommel, 2014), Hofstede’s national cultural framework (Garcia-Sanchez et al., 2013), EFQM model (Trebucq & Magnaghi, 2017),

Bruner's (1986, 1990, 1991) functionalist approach (Lai et al., 2018), Boltanski and Thévenot's (1991, 2006) economies of worth (EW) framework (Vesty et al., 2018), Sutton's (1984) rational-choice model of lobbying (Reuter & Messner, 2015).

The theories used in this study along with justifications are discussed below.

#### **4.4 Theories used in the present research**

The second research question is addressed through the lens of the institutional theory in section 4.4.1.

##### **4.4.1 Institutional theory (IT)**

Among the IR scholars in accounting journals (as described in section 3.5.6 in Table 3.13), *institutional theory* was the most widely used theory, with a 9.5% (Adams et al., 2016; Adhariani & de Villiers, 2018; Atkins et al., 2015b; Baldo, 2017; Briem & Wald, 2018; Gibassier et al., 2018; Higgins et al., 2014; Lai et al., 2017; Zinsou, 2018) and it was used by 4.4% (Garcia-Sanchez et al., 2018; Jensen & Berg, 2012; Rivera-Arrubla et al., 2017; Vaz et al., 2016) of the IR scholars in finance/management journals. Some other studies were published in other journals (Frías-Aceituno et al., 2013b, Ioana & Adriana, 2013, 2014; Velte & Stawinoga, 2017; Wild & van Staden, 2013) and conferences (Humphrey et al., 2014) also used IT as their theoretical base to address IR.

The adoption and diffusion of organisational practices is often analysed against the background of IT (Burns & Scapens, 2000, DiMaggio & Powell, 1983; Jensen & Berg, 2012; Scapens, 2006; Sharma & Lawrence, 2008; Sharma, Lawrence, & Lowe, 2014). According to IT, organisations are predicted as sociological perspectives having an integral relationship between patterns of institutional norms and behaviour and embedded a comprehensive system of political, financial educational, cultural, and economic institutions that exert institutional pressure on them (Jensen & Berg, 2012; Matten & Moon, 2008, Wild & van Staden , 2013).

With the new institutionalism, Matten and Moon (2008) developed a conceptual framework for a comprehensive understanding of different forms of corporate social and environmental responsibility (CSER), as to implicit and explicit approaches of CSER, with different institutional contexts. Originally, this framework was developed to explain different forms of explicit corporate social reporting in Europe, which describes organisation's communication of policies and practices to their stakeholders with regard to CSER. Later it was used to explain

the more implicit CSER approach in the US, which describes an approach to CSER through values, rules and norms that resulted in mandatory requirements of companies. The main argument of Matten and Moon (2008) for the new institutionalism was beyond the impact of national institutional factors, such as political, financial, educational, labour and cultural systems, and resulted from the changes in organisational processes and systems and the changes in the nature of the firm becoming institutionalised because they are considered as legitimate (Jensen & Berg, 2012; Matten & Moon, 2008). The same argument was affirmed by Wild and van Staden (2013), suggesting that individual firms are influenced by the rules, norms, and belief systems prevalent within the structural parameters of their particular operating environment, and are motivated to adopt organisationally advantageous behaviours and seek to optimize benefits to the form within this specific environment (DiMaggio & Powell, 1983). These norms and behaviours lead organisations to a condition of institutional isomorphism (similarity in form, both structurally and procedurally) and it is considered as legitimate (Wild & van Staden, 2013).

According to many researchers, new-institutionalism (neo-institutional theory) addresses the question of homogenisation process in organisational practices (Briem & Wald, 2018; DiMaggio & Powell, 1983; Jensen & Berg, 2012; Matten & Moon, 2008; Meyer & Rowan, 1977) and this new institutional isomorphism is gained through coercive isomorphism, mimetic conduct or processes and normative pressures (Burns & Scapens, 2000; Deegan, 2014; DiMaggio & Powell, 1983; Jensen & Berg, 2012; Scapens, 2006; Sharma & Lawrence, 2008; Sharma et al., 2014; Wild & van Staden, 2013). Coercive isomorphism is the impact of related rules, norms or laws, in the form of regulatory or other authoritative imperatives (Jensen & Berg, 2012, Wild & van Staden, 2013). Mimetic conduct is driven by the need to conform to wider industry norms regarded as best practice in order to avoid reputational risk, to employ report content as a means to manipulate stakeholder perceptions, and to gain, or attempt to regain, operational legitimacy (Wild & van Staden, 2013). The same idea was addressed in Jensen and Berg (2012), stating that mimetic process imply that managers copy strategies of successful organisations (or competitors), which are regarded as best practice. Normative pressure denotes the impact that professional authorities exert by setting standards to legitimate organisational practices (Jensen & Berg, 2012). That is why IT has been used as a mean to provide an understanding of why organisations in a particular industry attain conformity and standardisation in their norms of behaviour (DiMaggio & Powell, 1983; Wild & van Staden, 2013).

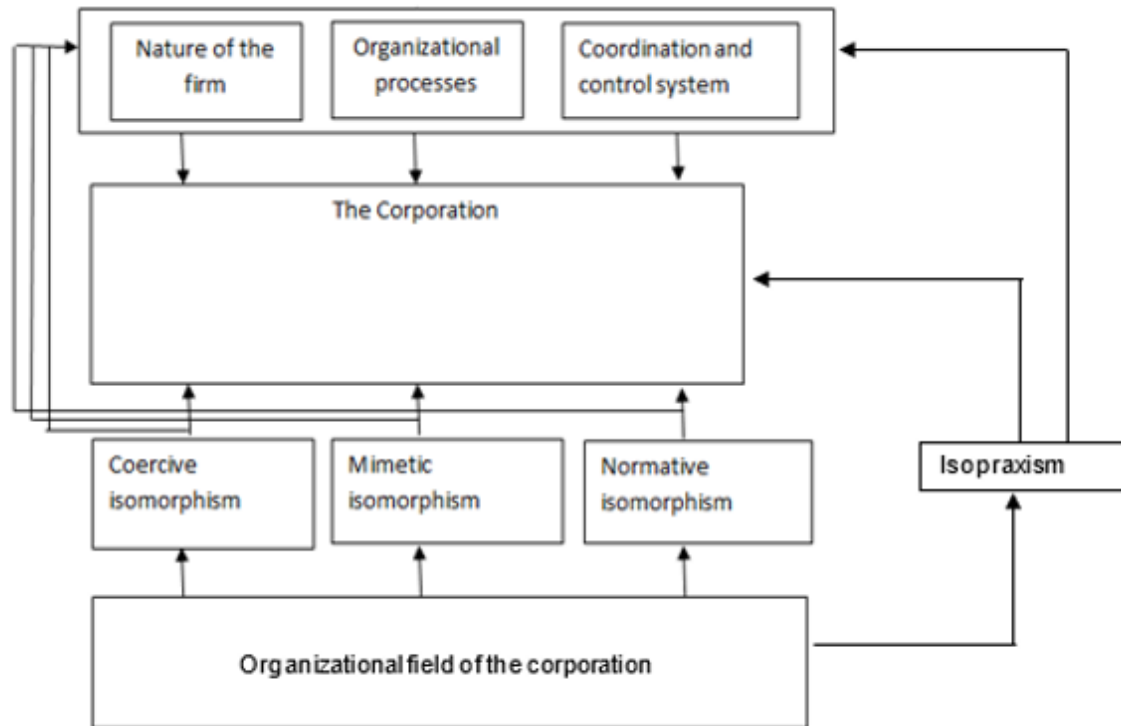


Figure 4.1: Institutional context of the organisation (Source: Author, based on Adams et al., (2016); DiMaggio & Powell (1983); Jensen & Berg (2012); Matten & Moon (2008)).

According to Scott (2008), the definition of institutions is provided in terms of three elements, as three vital pillars of institutions, namely, regulative, cultural-cognitive, and normative) (Deegan, 2014). The regulative pillar involves rules, laws and associated sanctions and this pillar is maintained through various coercive mechanisms, many of which are endorsed by government or powerful constituents that organisations are dependent upon. As Scott (2008) identified, the second pillar, the cultural-cognitive pillar, is the major distinguishing feature of IT. This consists of taken-for-granted symbolic systems and meanings. This pillar is maintained by the mimetic mechanisms in which organisations tend to imitate (or copy) others. The normative pillar incorporates values and norms reflecting certain social obligations (socially accepted processes or structures as the right or moral ways to do things) or expectations (right or proper ways to do things) and this pillar is maintained through processes such as accreditations, professional endorsement and formal education.

With an aim of identifying the potential conditions under which IR is likely to occur in companies and how these determinants differ from companies that publish traditional sustainability reporting (TSR), Jensen and Berg (2012) applied IT. In a similar way, Wild and van Staden (2013) applied neo-institutional theory, which underlies the evaluation of the extent

of isomorphism identified in early industry adoption of IR, in their analysis of the content and structure of the corporate integrated reports published by their sample of 58 companies. Both studies looked into the three aspects, as coercive, mimetic and normative pressures on the adoption of IR.

However, the impact of coercive isomorphism on adoption of IR is found negligible in both studies, due to the absence of even a voluntarily usable framework or an internationally accepted IR framework or a reporting standard that mandates IR, prior to the IIRCF pronouncement in 2013 December. The bandwagon effect through the mimetic processes was also found negligible in Jensen and Berg (2012) due to the newness of the IR concept and the very low number of organisations having adopted IR. Based on IT, Wild and van Staden (2013) assessed the extent of mimetic isomorphism in the early integrated reports and its impact on the early adoption of IR. They made a preliminary evaluation of the existence and extent of mimetic isomorphism in the IR of the reviewed companies. Findings revealed that mimetic isomorphism does not exist as a factor in the construction of the early adopters, due to the availability of only a small sample of IR companies in the early stage of development of IR and the fact that a few have produced more than a single report. This result was similar to normative pressures in Jensen and Berg (2012), where they identified no pressure from educational and professional authorities in legitimating the IR as an organisational practice.

Hence, in summary, the impact of these three isomorphisms on adoption of IR is found negligible in both studies (Jensen & Berg, 2012; Wild & van Staden, 2013) due to three reasons: the absence of even a voluntarily usable framework prior to the IIRC framework pronouncement in 2013 December; the newness of the IR concept and availability of only a small sample of IR adopters; and the absence of pressure from educational and professional authorities in legitimating the IR as an organisational practice. With the insignificant impact through the coercive, mimetic and normative pressures on companies' choice of IR instead of TSR, Jensen and Berg (2012) focused on investigating the effects of the political system, financial system, education and labour system, cultural system and economic system with regard to the explicit part of the Matten and Moon (2008) framework (Figure 4.1), which considers the national institutional factors of the framework. Vaz et al. (2016) analysed country-specific determinants of the use of IR from an IT perspective and found evidence for the influence of factors such as the national culture and the regulatory framework.

The research purpose of Higgins et al. (2014) was to explore how the managers of early-adopting Australian firms contributed to the institutionalisation of IR and argued that the managers of early-adopting firms are important in the institutionalisation process, as they do engage in important institutional work. Briem and Wald (2018) applied IT to analyse IR assurance in the absence of research that examines companies' attitude toward the assurance of integrated reports by considering neo-institutional theory, and found that companies follow coercive pressures by their stakeholders when obtaining external assurance (Briem & Wald, 2018). Lai et al. (2017) drew on Searle's theory of institutional reality, in which the main argument was that there are three elements which are necessary to account for devising a social institutional reality: assignment of function, collective intentionality and constitutive rules.

Atkins et al. (2015b) claim that neo-institutional theory and institutional logics focus on how, and if, institutional status quo may be transformed. They further identified that neo-institutional theory has shifted from the notion of isomorphism, which explains the homogeneity of the practices to a more multidimensional approach, which is the notion of isopraxism (Adams et al., 2016), which explain the heterogeneity of the organisational practices. Affirming this fact, Adams et al. (2016) argued that as an alternate to isomorphism, which has largely been used to explain the homogeneity of the practice, the notion of isopraxism can also be applied to capture the different consequences that can arise with the heterogeneity of the practices because it is possible that differences may occur in what is adopted. According to Adams et al. (2016), isomorphism may be useful for understanding how and why IR content and structures can become similar across companies over time and isopraxism would accommodate a finding of a move toward more integrated approaches to reporting, and in the presence of isopraxism, a change might occur even though organisations need not necessarily label reports as 'integrated' reports.

In exploring what makes IR institutionalize in the selected organisations in Sri Lanka, the present study draws IT as the theoretical ground to explain the adoption of IR disclosure practices following the introduction of the international IR framework. In so doing, the researcher undertakes the interview method, given the second research question of the study to explore the motives behind the voluntarily adoption of IR while examining the challenges and the outcomes derived by the sample of companies in their journey of IR. Jensen and Berg (2012) have suggested using primary data, in order to consider the individual motives of IR. In this way, this study directly responds to one of the future research questions put forward by Jensen and Berg (2012), as to what motivates companies to voluntarily publish integrated

reports. On similar ground, the present study addresses one of the potential avenues opened up by Adams (2015), namely, exploring the qualitative factors such as role of leadership as a factor determining the uptake of IR.

Thus, the notions of isomorphism and isopraxism would better explain how and why the selected Sri Lankan organisations have adopted IR disclosure practices in communicating their unique value creation story. First, this study uncovers ‘how’ the selected organisations have been influenced by IR and ‘why’ the selected organisations have adopted IR as a new corporate reporting model, drawing from regulative or coercive isomorphism. Also, this investigates whether the selected companies tend to imitate other organisations’ best practices as a motive to adopt IR, as influenced by the mimetic isomorphism. Furthermore, this study also looks into the fact that whether the selected organisations’ IR institutionalisation process has been influenced by professional endorsement, reflected by normative isomorphism. Therefore, drawing from IT, the present study extends the prior research to explain the impact of coercive, mimetic and normative elements in the selected organisations’ IR disclosure practices following the adoption of the international IR framework as a voluntary requirement. Second, this study explores the impact of IR on the internal systems, processes, decision-making of the selected organisations in Sri Lanka, and what outcomes they have achieved in their IR journey, while identifying the changes made to their organisations’ internal systems, processes and decision-making on the adoption of IR. Congruently, Adams (2015) suggested that the decision to prepare integrated reports should lead to changes in decision-making processes; informal and formal communication processes; materiality and risk identification processes, etc. Third, this addresses a theoretical gap using IT as the theoretical lens to explain the challenges and implications of IR, which has been identified as a less known area in IR due to the newness of IR practice by Haji and Hossain (2016).

#### **4.4.2 Stakeholder theory (ST)**

The present researcher has developed a theoretical framework to conceptualise integrated thinking in practice based on the stakeholder theory. This section provides an overall understanding of the stakeholder theory with respect to the previous IR research. The theoretical argument based on the stakeholder theory is explained in section 4.4.2.1 with the proposed theoretical model.



Notably, *stakeholder theory* is the most performed theory (13.2%) (based on the findings of section 3.5.6 in Table 3.13) among IR scholars in finance/management journals (Fasan & Mio, 2017; Frías-Aceituno et al., 2013a; Garcia-Sanchez et al., 2013; Lueg et al., 2016; Oshika & Saka, 2017; Parrot & Tierney, 2012; Rivera-Arrubla & Zorio-Grima, 2016; Vaz et al., 2016), and 4.3% of IR scholars appeared in accounting journals using the stakeholder theory as the theoretical lens for their studies (Adhariani & de Villiers, 2018; Baldo, 2017; Haller & van Staden, 2014; Stent & Dowler, 2015). ST has also been used by IR studies which have been published in other journals as well (Brusca et al., 2018; Dumitru, Guse, Feleaga, Mangiuc, & Feldioreanu, 2015; Manes-Rossi, Nicolo, & Orelli, 2017; Menicucci & Paolucci, 2018; Ruiz-Lozano & Tirado-Valencia, 2016; Vorster & Marais, 2014).

Taking a shareholder approach to social responsibility, Milton Friedman argued that managers do not possess competencies to holistically handle societal problems (Friedman, 1970). Contrary to the shareholder/stockholder theory (Friedman, 1970), in ST, it is assumed that stakeholders have a reciprocal relationship with a firm in the sense that they contribute to the firm's value creation, and the firm's performance affects their well-being (Freeman, 1984; Razaee, 2016).

Pioneering work in the area of stakeholder management was provided in Freeman (1984) with the argument that stakeholders have a reciprocal relationship with a firm in the sense that they contribute to the firm's value creation, and the firm's performance affects their well-being. Freeman (1984) articulated the focus of ST in two core questions: first, what the purpose of the firm is, and second, what responsibility management has to stakeholders. The first question encourages managers to articulate the shared sense of the value they create, and what brings its core stakeholders together, which drives the firm forward and allows it to generate outstanding performance. The second question, which relates to management's responsibility to stakeholders, pushes managers to articulate how they want to do business, specifically, what kinds of relationships they want and need to create with their stakeholders to deliver on their purpose (Freeman, 1984).

Stakeholder theory provides an explanation for corporate disclosures and classifies stakeholders into two branches: ethical (normative or moral) branch and managerial or instrumental branch (Deegan, 2014). The difference between the ethical and managerial branches of ST can be discussed based on key criteria: which stakeholders are considered, what the role of the organisation is, what the relevance of stakeholder power is and what the role of

corporate reporting is (Deegan, 2014). According to Deegan (2014), when identifying which stakeholders to be considered, while ethical branch of ST is concerned with all stakeholders who can affect the organisation as well as with those who are affected by the organisation, the managerial branch is concerned with stakeholders who can affect the organisation, in which the stakeholder power matters. However, according to Freeman (1984), ST claims that whatever the ultimate aim of the corporation, managers and entrepreneurs must take into account the legitimate interests of those groups and individuals who can affect or be affected by their activities.

In Deegan's (2014) ethical branch of stakeholders, the role of an organisation is to manage the organisation for the benefit of all stakeholders, whereas in the managerial branch, the role of the organisation is to manage the organisation for the benefit of the owners and powerful stakeholders. He further stated that the notion of the stakeholder power is not relevant in the ethical branch of stakeholders, where all stakeholders have the right to be treated fairly by an organisation; however, stakeholder power is relevant and stakeholders will be identified on the basis of the extent to which their needs must be managed in order to further the interests of the organisation. In terms of the role of corporate reporting, Deegan (2014) argued that within the ethical branch of stakeholders, corporate reporting is responsibility driven, informing stakeholders about the extent to which the actions for which the organisation is deemed to be responsible have been fulfilled, and in the managerial branch of stakeholders, corporate reporting is used as a strategy to manage the interests and influence of powerful stakeholders so as to further the interests of the organisation. As argued by Ruiz-Lozano and Tirado-Valencia, (2016), in ST, the disclosure of information on corporate commitments to sustainability is used strategically to manage relationships with stakeholders, and therefore, the level of disclosure will depend on the power and influence of said stakeholders.

According to Adhariani and de Villiers (2018), disclosures are provided to satisfy the needs of stakeholders, which include equity investors, employees, analysts, advisers, business contact groups, government, taxpayers, ratepayers, consumers, lenders, creditors, suppliers, labour unions, the media, political parties, consumer/environmental protection societies and regional pressure groups, by addressing the preparers' perceptions towards focusing specific groups' needs and users' perceptions towards stakeholders' demand and pressures for corporate information. With the proposed VAS (value added statement) as an appropriate instrument for IR, Haller and van Staden (2014) used ST as the underlying theoretical concept that views an enterprise as a coalition of different interest groups, and therefore a firm's value creation as the

result of collective effort. This measure of value creation, which embraces all major stakeholders as identified by (Adhariani & de Villiers, 2018; Deegan, 2014), fits in ideally with the value concept of the IR framework (Haller & van Staden, 2014). In a similar line, Rezaee (2016) stated that the goal of firm value creation can be achieved when management considers the interests of all stakeholders and integrates their economic, governance, social, ethical, and environmental sustainability performance. In so doing, he connected a multi-level stakeholder approach in examining the role of business organisations in society and their interactions with their constituencies, including shareholders, creditors, suppliers, customers, employees, government, society and the environment.

The importance of IR, stakeholder engagement and the value of integrating financial, environmental, and social factors in its investment decisions at American Electric Power was discussed by Parrot and Tierney (2012) based on the arguments on theory of ‘enlightened value maximisation’, originally proposed by Michael Jensen in 2001. The enlightened value maximisation theory (Jensen, 2001) proposed that corporate managers should aim to increase the long-run efficiency and value of their companies, and that the scorecard by which a company’s success should be measured is the increase in the value of the firm’s long-term market value. Jensen (2001) argued that although the goal of value maximisation effectively requires that companies take account of the interests of all its important stakeholders, managers should be guided by one single objective: the long-run maximisation of a company’s efficiency and value. Parrot and Tierney (2012) found stakeholder engagement provides critical input to the company’s strategy and investment decisions, while agreeing with Jensen’s premise that stakeholder engagement supports, enhances value maximisation and provides critical input to the company’s strategy and investment decisions. However, they disagree with Jensen (2001), who proposed the ‘theory of enlightened value maximisation’ that it should stand in as the firm’s sole objective function. Since the enlightened value maximisation theory does not offer a practicable guide to decision-making, it does not tell management how to weigh or balance sometimes conflicting interests when seeking long-term value maximisation. Moreover, Parrot and Tierney (2012) found two key problems with Jensen’s theory of enlightened value maximisation: absence of a useful criterion for evaluating trade-offs among stakeholder interests, and in achieving long-term value maximisation, organisation’s single overriding objective to achieve financial returns may sacrifice ethical and relational concerns. Despite Jensen’s enlightened value maximisation theory, the ST, in essence, holds that managers should weigh the concerns of all of a company’s significant stakeholders in their decision-making and

ST does not automatically privilege investor interests over those of other stakeholders, as shareholder theory does (Parrot & Tierney, 2012).

Assimilating from the ST, Lueg et al. (2016) drew CSR as a strategy for shareholders and other stakeholders in illustrating how standards and guidelines for CSR can help a company in its IR. They claim that a shareholder strategy, which is rooted in the neo-classic theory, favours an indirect approach with regard to the adoption of CSR, asserting that a company is primarily responsible to its owners, and thus its objective is to increase company profits. Lueg et al. (2016) also argued that companies should directly engage in CSR to ensure a sustainable future infrastructure for their operations, to secure government regulation, and to create a competitive advantage by using CSR. IIRC (2011, p.3) stated that on its way towards the primary reporting vehicle, integrated reports should include only material financial and non-financial information to address diverse stakeholder needs. Lueg et al. (2016) further claimed that, in contemporary works, the shareholder and stakeholder views agree on long-term profitability being the underlying principle of a company.

Scholars have explained how the notion of accountability (Deegan, 2014; Silvestri et al., 2017; Stent & Dowler, 2015) may be derived from the ethical and normative perspective of the ST, and based on the stakeholder power, how that stakeholders have a right to information about how an organisation affects them. Deegan (2014) explained how the notion of accountability may be derived from the ethical and normative perspective of the ST, and based on the stakeholder power, how that stakeholders have a right to information about how an organisation affects them (Stent & Dowler, 2015). Silvestri et al. (2017) evaluated the attitude of an organisation toward its stakeholders by reading throughout its IR and found that the propensity for stakeholder management highlights an opportunistic and strategic approach to the ST, while ensuring strong stakeholder accountability.

In addition to the above, Frias-Aceituno et al. (2014), and Baret and Helfrich (2018) theorised their studies using stakeholder-agency theory, which subsequently extended the fundamental assumption of agency theory from shareholders and managers to 'other stakeholders' and which explains how the IR proposal seeks to avoid the information asymmetries and meet the demands of multiple stakeholders (Frias-Aceituno et al., 2014; Ruiz-Lozano & Tirado-Valencia, 2016). By a further extension to ST, Gianfelici et al. (2018) drew from the stakeholder salience theory to focus on some factors that may cause specific stakeholders to be crucial for some organisations and their ability to create value over time.

### ***Stakeholder involvement***

According to the stakeholder theory literature, there are three levels of stakeholder involvement: stakeholder mapping (first level), in which the corporation maps its stakeholders (Deegan, 2014; Gianfelici et al., 2018; Mitchell, Angle, & Wood, 1997; Waddock, 2002); stakeholder management (second level), in which the corporation tries to manage stakeholders' expectations, balancing different positions (Waddock, 2002); and stakeholder engagement (third level), in which corporations involve their stakeholders in decision-making processes, sharing information, having dialogue with them and creating a model of mutual responsibility (Greenwood, 2007; Parrot & Tierney, 2012; Rinaldi, 2013; Waddock, 2002). Mitchell et al. (1997) proposed a framework to identify stakeholders according to the relative importance of each type of stakeholder in terms of an organisation meeting its objectives. They argued that there are three features of a stakeholder that need to be considered: power, legitimacy and urgency (Deegan, 2014). Stakeholder engagement has been defined as practices that the organisation undertakes to involve stakeholders in a positive manner in organisational activities (Greenwood, 2007). Effective stakeholder engagement allows an organisation to identify and to understand better the legitimate needs and expectations of powerful constituents and how best to address these as part of the integrated reporting process (IOD SA, 2016). Most organisations will have mechanisms in place to engage with stakeholders, whether informing, consulting or collaborating, and these may include social media and digital platforms, surveys, site visits and community meetings, and brochures, newsletters and mailers (IOD NZ, 2018).

In recent literature it was also found that, a holistic approach to business management allows organisations to address the reasonable expectations of stakeholders and ensure that the organisation's strategy, business model and related outcomes are aligned with stakeholder expectations, resulting in legitimacy and long-term sustainability (IOD SA, 2016; McNally et al., 2017). IOD SA (2016) claimed that in order to satisfy stakeholders' expectations, an organisation must be held accountable for ensuring responsible business practices, including the maximisation of stakeholder value and mitigation of negative business outcomes. In understanding and responding to the evolving expectations of stakeholders, the organisations should focus on the overall strategy of the organisation, social, governance and environmental risks and opportunities, and long-term business sustainability. Increasing stakeholder demands for clear communication about organisational performance and intentions are driving more holistic reporting beyond the financial bottom-line, requiring organisations to think and engage more broadly with stakeholders (IOD NZ, 2018). Undertaking stakeholder mapping, including

analysis of stakeholder needs, structures, and issues, is an essential component of social license (IOD NZ, 2018). They defined social license as the level of support, approval or acceptance of organisations and their activities by stakeholders and communities, over and above meeting any legal requirements. IOD NZ (2018) further claimed that social license needs to be discussed by boards, and managed, documented and reported by management, in order to understand stakeholder expectations about an organisation's operations. Integrated thinking helps boards to assess non-financial impacts by bringing understanding and discussion of social acceptability into the boardroom.

#### **4.4.2.1 A proposed theoretical framework based on ST—"A Stakeholder Approach to Multi-Capital Management"**

Development of this proposed model in the present thesis contributes to an underexplored area of organisational value creation through integrated thinking, adopting a multi-stakeholder approach in managing the multi-capitals.

Doni et al. (2018) stressed the importance of reporting the impacts of multiple capitals and integrated thinking on organisational practices with the need to develop a new comprehensive model for reporting not only the value of a company's own capitals but also the trade-offs between such capitals and those capitals not owned by the organisation. Taking this implication forward, the present study has developed a comprehensive theoretical model which consists of capitals owned by the organisation as well the capitals not owned by the organisation and the trade-offs between them by incorporating the stakeholder perspective for the multiple capitals reported by organisations and exploring how such stakeholder-based multiple capitals derive value and deliver value to organisational stakeholders through integrated thinking.

Further, the present study also extends the future research implications of Doni et al. (2018) in a way that bringing the concept of business model/value creation model in IIRC to assess how business models can help companies to report on multiple capitals and how such business model could improve the evaluation of particular issues and enhance the framing of multiple capitals within organisational value creation.

Based on these, the proposed theoretical model (Figure 4.2) brings a controversial argument claiming that the six types of capitals, namely financial capital, manufacturing capital, human capital, intellectual capital, social and relationship capital and natural capital, recognised by IIRC (2013b) being possessed and contributed by different stakeholders as stores of values that

provide the key ingredients for organisational value creation process, together with the four capital management activities, can be managed through a stakeholder approach.

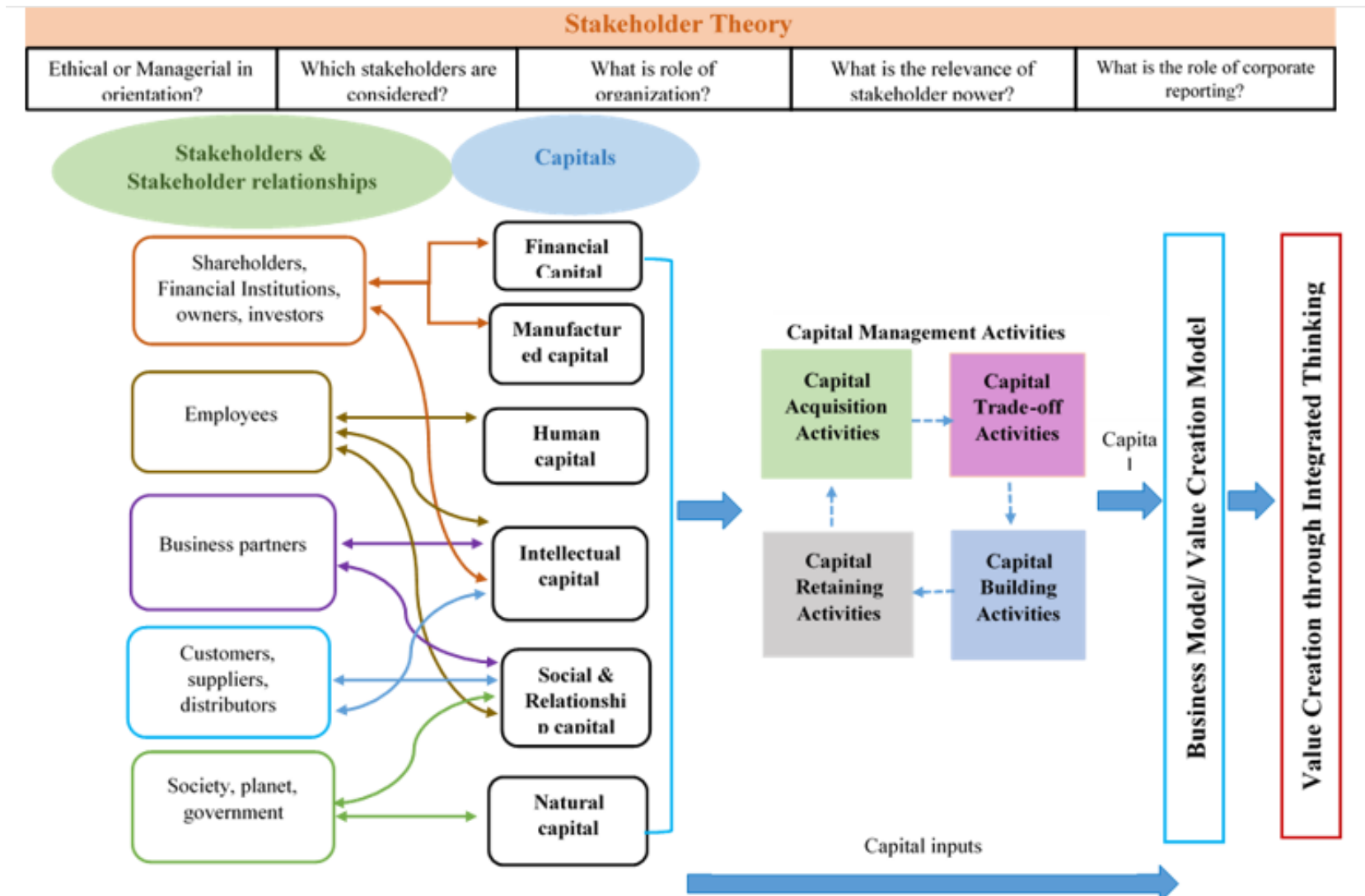


Figure 4.2: “Conceptualising integrated thinking in practice: A stakeholder approach to multi-capital management” (Source: Author’s construction based on Deegan (2014); IIRC (2013b); Dima annual report (2018, p. 32-33, 61-63)



## 4.5 Chapter summary

The aim of this chapter was to provide an understanding of the different theoretical arguments of the prior IR research and to justify the theories used in explaining the present study findings. Thus, past IR research was found using various theoretical grounds, such as institutional theory, stakeholder theory, agency theory, legitimacy theory, signalling theory, diffusion of innovation theory, practice theory, impression management theory, political cost theory, proprietary cost theory, etc.

In the present study, the new institutional theory is used as the primary theoretical argument to address the second research question, which is used to explain the three isomorphic forces as coercive, mimetic and normative, and the isopraxism forces that motivate selected organisations to adopt IR practices as their corporate reporting norm. Particularly, these isomorphism and isopraxism forces in the new institutional theory have provided the theoretical underpinning in explaining why the selected organisations voluntarily publish integrated reports addressing an existing research gap (Haji & Hossain, 2016; Jansen & Berg, 2012).

This study has also used stakeholder theory to conceptualise integrated thinking in practice based on a proposed theoretical framework in explaining the importance of stakeholders as providers of capital for organisational value creation process. This proposed model also shows how to operationalize integrated thinking in practice through a stakeholder management approach towards managing these multi-capitals.

Now that the theoretical foundations have been identified, the next two chapters discuss the methodological approach adopted in conducting the present research.

## **Chapter 05**

### **The Accounting Profession in Sri Lanka**

This chapter provides the supporting facts for the recommended reasons to select Sri Lanka as the potential country to explore the research context of IR.

#### **5.1 Chapter introduction**

Having identified the research questions and underpinning theoretical lens for the present study in the preceding chapters, this chapter discusses the conducive socio-economic, commercial and regulative support that prevails in Sri Lanka in exploring IR. This chapter provides the reader an overall understanding of the selection of the country in section 5.2, socio-economic environment of SL in section 5.3, overview of business environment in SL in section 5.4, financial reporting framework of SL in section 5.5, accountancy profession (PAOs) in SL in section 5.6, the role of PAOs in promoting IR in SL in section 5.7, timeline of IR in Sri Lanka in 5.8, IR reaching maturity in Sri Lanka in section 5.9 and the chapter summary in section 5.10.

#### **5.2 Selection of the country**

The present study locates within the Sri Lankan context. First, this provides an understanding of the extent to which the Sri Lankan socio-economic environment and business environment are conducive to facilitate the IR in Sri Lanka. Second, this section acknowledges the initiatives made by the professional accounting organisations in Sri Lanka as well as the government in promoting and enhancing the best practices of financial reporting amongst Sri Lankan corporates. Third, from a developing country perspective, the research methodology and findings of the present study would be a learning scenario and/or a benchmark for future IR studies in other developing countries.

#### **5.3 Socio-economic environment of Sri Lanka**

Sri Lanka is a lower-middle-income developing country with a population of 21.44 million at 2017 (The World Bank Group/The WBG, 2019) and is presently experiencing post-war economic growth. Its Gross National Income (GNI) for 2018 was US\$ 87.9 billion with a GNI per capita of US\$4060 (The WBG, 2019). The rate of Gross Domestic Product (GDP) growth in real terms for 2018 was 3.2%. The GDP is primarily driven by the services sector

(56.7%), followed by the industrial sector (26.9%) and agricultural sector (6.8%) (Central Bank of Sri Lanka/CBSL, 2018a, p.1).

The Constitution of Sri Lanka provides for education as a fundamental right and it plays a pivotal role in the life and culture of the country and dates back to 543 BC (Ministry of City Planning, Water Supply & Higher Education, 2018). As affirmed by the Ministry of Higher Education in Sri Lanka and the Central Bank of Sri Lanka, Sri Lanka's population had a literacy rate of 93.1% in 2016 (CBSL, 2018a, p.1), higher than that expected for a third world country. It has the highest literacy rate in South Asia and overall one of the highest literacy rates in Asia. This high adult literacy rate has been exemplified in Abeysekara and Guthrie (2004a), as a high level of intellectual capital in finding out to what extent Sri Lankan companies emphasise that valuable resource of 'high intellectual capital' and recognise its ability to add value to their organisations based on the status of intellectual capital reporting of top 30 companies in Sri Lanka.

Similarly, the share of employment in high-skill occupations (managers, professionals, technicians and associate professionals) increased by nearly five percentage points between 2000 and 2016 in Sri Lanka (The World Bank, 2019, p.71). This might be a reason for the rise of management's voice, dialogues and awareness in terms of this new corporate reporting mechanism, integrated reporting, in the corporate sector of Sri Lanka. Hence, the high level of intellectual capital and the increased demand for high-skill occupations in Sri Lanka can be considered as one of the factors in recommending Sri Lanka as a potential country. The present study acknowledges the above two criteria from the point of view of two capitals explained in the concept of IR by IIRC. The two capital items are intellectual capital and human capital. Therefore, it was interesting to find out to what extent these capital disclosures have been emphasised, valued, recognised and communicated in the value creation story of the selected entities in Sri Lanka.

#### **5.4 Overview of business environment and its regulation for publicly listed companies in Sri Lanka**

The legal and regulatory requirements of corporate financial reporting in Sri Lanka are defined under several laws of Sri Lanka, including Companies Act No. 7 of 2007 for public company incorporation, Inland Revenue Act No. 9 of 2015, and Accounting and Auditing Standards Act No. 15 of 1995 (Deloitte, 2019). Under the Sri Lanka Accounting and

Auditing Standards Act No: 15 of 1995, The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka/CASL) is empowered with the sole jurisdictional authority as the national and official standard setter to formulate accounting, auditing and public sector standards as well.

In addition to the above, requirements for certain SBEs<sup>15</sup> are also established under other relevant laws, such as Securities and Exchange Commission Act No. 36 of 1987, Banking Act No. 30 of 1988, Finance Business Act of 2012, Microfinance Act No. 6 of 2016, Regulation of Insurance Industry Act No. 27 of 2011 (Deloitte, 2019). The financial reporting requirements for all banks in Sri Lanka are stipulated in the Banking Act No. 30 of 1988, which also recognises the Central Bank of Sri Lanka (CBSL) as the regulator of the banking sector. The banking sector continues to dominate the financial sector, accounting for 62.4% of the total assets of the financial sector (Annual report of CBSL/AR CBSL, 2018, p.251). The banking sector comprised 33 banks, of which 26 were Licensed Commercial Banks (LCBs) (including 13 domestic banks and 13 foreign banks) and 7 were Licensed Specialised Banks (LSBs)<sup>16</sup> by the end of 2018 (AR CBSL, 2018). CBSL also regulates licensed finance companies (under the Finance Business Act of 2012) and microfinance companies (under the Microfinance Act No. 6 of 2016). By the end of 2018, the non-banking financial sector comprised 43 licensed finance companies (LFCs) and 5 specialised leasing companies (SLCs) (AR CBSL, 2018). The financial reporting requirements for all insurance companies are regulated by the Regulation of Insurance Industry Act No. 27 of 2011 and recognise the Insurance Board of Sri Lanka as the regulator for insurance companies in Sri Lanka (Deloitte, 2019).

The financial reporting requirements for companies listed on the Colombo Stock Exchange (CSE) are stipulated in the Securities and Exchange Commission Act No. 36 of 1987 and

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<sup>15</sup> SBEs in Sri Lanka are defined as companies listed on the stock exchange, banks, insurance companies, factoring companies, finance companies, leasing companies, unit trusts, fund management companies, stockbrokers and stock dealers, stock exchanges, public corporations engaged in the sale of goods or the provision of services, and non-listed companies that meet the following criteria: annual turnover in excess of LKR 500 million, shareholders equity in the excess of LKR 100 million, gross assets in excess of LKR 300 million, liabilities to banks and other financial institutions in excess of LKR 100 million, and staff in excess of 1,000 individuals (the Accounting and Auditing Standards Act No. 15 of 1995).

<sup>16</sup> Licensed Specialised Banks (LSBs) include national-level regional development banks, national-level savings banks, housing finance institutions and other LSBs.

it recognises the Securities and Exchange Commission (SEC) as the regulator for all listed companies

#### **5.4.1 Colombo Stock Exchange (CSE)**

The CSE is a company limited by guarantee, established under the Companies Act No. 17 of 1982 and is licensed by the SEC of Sri Lanka (Sustainable Stock Exchanges Initiative/SSE, 2017). The CSE is a mutual exchange and all members are corporate entities and some are subsidiaries of large financial institutions and licensed by the SEC to operate as stockbrokers (SSE, 2017). As identified in the same, the regulatory body is the SEC, though CSE functions as a Limited Exchange Self-Regulatory Organisation (SRO) Model (SSE, 2017).

Public companies incorporated under the Companies Act No.7 of 2007 or any other statutory corporation, incorporated or established under the laws of Sri Lanka or established under the laws of any other state (subject to Exchange Control approval) are eligible to seek a listing on the CSE to raise debt or equity and such companies are required to comply with the relevant provisions of the Companies Act No.7 of 2007, the Securities & Exchange Commission Act No.36 of 1987 and the listing rules of the CSE (CSE, 2019).

CSE remained small in terms of scale and with limited exposure to the global market compared with its peers in the Asian region (China, Japan, South Korea, Hong-Kong, Philippines, Malaysia and Thailand), having only 296 listed companies representing 20 business sectors and market capitalisation of Rs. 2,899.3 billion (US dollars 18,959.5 billion) at the end of 2017 (AR CBSL, 2017). Sector classification of the CSE can be viewed in Appendix 6A. Moreover, as in AR CBSL (2017), the 5 largest and 10 largest companies accounted for 27.4% and 42.1%, respectively, of market capitalisation. The All Share Price Index (ASPI) and the S&P Sri Lanka 20 index of the CSE improved in 2017 (AR CBSL, 2017). Based on the data available on AR CBSL (2017), price indices of most sub-sectors showed better performance in 2017 compared to 2016 and among the main sub-sectors, banking, finance and insurance; beverage, food & tobacco; diversified holdings sectors increased by 5.1%, 8.8% and 8.0%, respectively, while hotels & travel and manufacturing sectors declined by 6.8% and 9.1%, respectively. The plantations sector showed a significant increase of 51.7% amongst small sectors (AR CBSL, 2017). However, the CSE recorded a declining trend in 2018, in terms of turnover, capitalisation

and price to earnings (PE) ratio, reversing the growth achieved in 2017 (AR CBSL, 2018). As stated in the same, the market capitalisation declined to Rs. 2,839.5 billion at the end 2018 from Rs. 2,899.3 billion recorded at the end of 2017.

The present study's findings are also based on a sample of companies listed on the CSE Sri Lanka.

#### **5.4.1.1 ESG and sustainability reporting requirements at CSE**

At CSE, neither the ESG reporting nor the sustainability reporting is mandated as a listing rule (CSE, 2019). However, a CSE sustainability guide was released in early 2018 providing specific guidance for companies on ESG reporting named, “Communicating Sustainability-Six Recommendations for Listed Companies”. Nonetheless, CSE continued to offer ESG-related training by formalising an arrangement with the Global Reporting Initiative (GRI) to provide guidance to listed companies on ESG disclosures in Sri Lanka and conducted workshops on corporate transparency and sustainability reporting. Through this sustainability guide, listed companies are assisted and guided in a structured way on how to approach the topic of sustainability when they incorporate it into their capital market communication, as these aspects are among the factors influencing investment decisions today by institutional and retail investors (CSE, 2019). By publishing this Communicating Sustainability guide, CSE also fulfilled its commitment to provide guidance to its market on sustainability reporting and joined 35 other exchanges worldwide that are providing guidance on reporting environmental, social and governance (ESG) issues for listed companies in their markets (Deloitte, 2019).

In March 2018, the GRI's ‘Sustainability Reporting for Sustainable Development’ event took place in Sri Lanka in collaboration with the CSE and included a panel discussion on how SR can drive change in South Asia. One of the two publications launched during this event was the “Communicating Sustainability-Six Recommendations for Listed Companies Version 2” for the CSE listed companies which integrates perspectives and standards of GRI and adds considerable value to users of the publication. The CEO of the CSE has said:

“We are encouraged by the growing commitment of Sri Lankan entities towards communicating their sustainability performance. We encourage Sri Lankan listed companies to take considerable strides towards making SR an effective and standard practice” (GRI, 219).

The rules on corporate governance have been mandated as a CSE listing rule for PLCs from April 2008.

## **5.5 Financial reporting framework in Sri Lanka**

### **5.5.1 Adoption of International Financial Reporting Standards (IFRSs)**

Under the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, CA SL requires specified business enterprises (SBEs) to prepare financial statements in compliance with the Sri Lankan Accounting Standards/Sri Lanka Financial Reporting Standards (SLFRS) (which are based on the 2017 version of the International Financial Reporting Standards (IFRS)<sup>17</sup> issued by International Accounting Standards Board/IASB) (IFAC, 2019). SLFRS comprise IAS standards, IFRS standards, and interpretations from the IFRS Interpretations Committee and Standards Interpretations Committee, they also include: Statements of Recommended Practices; Statements of Alternate Treatment; and Financial Reporting Guidelines issued by CASL (IFAC, 2019). Sri Lanka has issued an alternative treatment with respect to accounting for a new ‘super gain tax’ that is required by Sri Lankan law but that is inconsistent with a paragraph in IAS 12 Income Taxes (IFAC, 2019). Companies that are not SBEs may apply SLFRS for SMEs, which is based on IFRS for SMEs (IFRS Foundation 2016).

The adoption of IFRSs by all SBEs and by small and medium-sized companies (SMEs) became operative for financial statement periods beginning on or after 1 January 2012 (IFRS Foundation 2016). The World Bank Group published the June 2015 ‘Report on the Observance of Standards and Codes (ROSC) on Accounting and Auditing in Sri Lanka’, which recommended that Sri Lanka mandate the use of IAS/IFRS without modifications for specified business enterprises (SBEs) and this key recommendation has been fully implemented (The World Bank Group, 2015). Sri Lanka is also a participant in the Asian-Oceanian Standard-Setters Group (AOSSG) which is formed with an objective for the standard setters in the Asia and Oceania region to establish a platform to discuss problems and share experiences in the convergence process, to participate in the development of

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<sup>17</sup> Which is also called the 2017 IFRS Consolidated without Early Adoption Version.

IFRSs, and to make contributions to a single set of high-quality global accounting standards (Deloitte, 2019).

### **5.5.2 Adoption of International Standards on Auditing (ISA)**

Under the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, CASL is also responsible for setting applicable auditing standards for the country and performing mandatory audits adopting the Sri Lankan Auditing Standards (SLAuS), which are based on the 2016 version of the International Standards on Auditing (ISA) with modifications due to national requirements (Deloitte, 2019).

### **5.5.3 Adoption of Quality Assurance (QA) Standards**

As in IFAC (2019), while the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) is charged with monitoring compliance with applicable auditing standards, CASL is responsible for implementation of a QA system in the country in accordance with the Sri Lanka Accounting and Auditing Standards Act No.15 (1995). CA Sri Lanka's Audit Quality Assurance Board (QAB) is responsible for overseeing the QA functions of the institute. QAB is independent of the CASL Council and is represented by all key regulators in the country.

CA Sri Lanka has established the Sri Lanka Standard on Quality Control 1 (SLSQC 1), based on the 2016 version of ISQC 1 (International Standard on Quality Control 1) issued by the IAASB (IFAC, 2019). The SLSQC 1 deals with a firm's responsibilities for its system of quality control for audits and reviews of financial statements, and other assurance and related services engagements (IFAC, 2019).

### **5.5.4 Adoption of International Public Sector Accounting Standards (IPSASs)**

Since 2011, CA SL has been issuing Sri Lankan Public Sector Accounting Standards (SLPSAS) as the standards to be applied by all non-commercial public corporations, state-owned enterprises, Ministries, Departments, and Local Authorities (IFAC, 2019). In 2015, the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 was revised and



amendments empowered CA SL to issue public sector accounting standards in Sri Lanka in partnership with the Ministry of Finance and Planning<sup>18</sup> (IFAC, 2019).

Since 2016, 20 International Public Sector Accounting Standards (IPSAS) issued by IPSAS Board have been adopted as SLPSAS with minor modifications (IFAC, 2019). The CA SL has also developed a single simplified version of the standards (Sri Lanka Public Sector Accounting Standards) for local authorities, which is in three languages and has been approved by the government (IFAC, 2019).

### **5.5.5 Code of Best Practice on Corporate Governance**

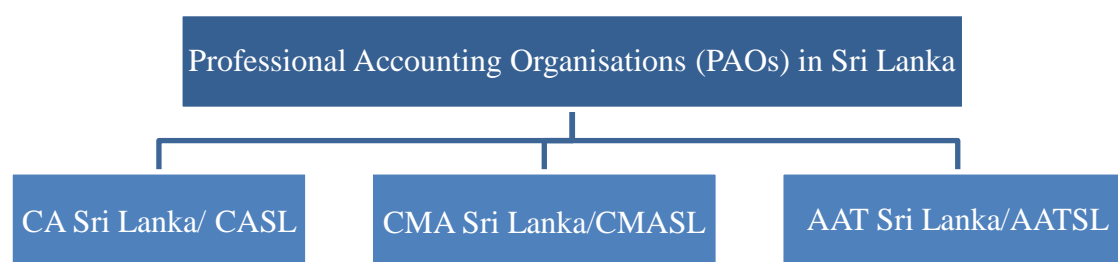
CASL has been in the forefront of issuing Corporate Governance Codes in Sri Lanka (Senaratne & Gunaratne, 2008). They have further stated that at present the Code of Best Practice on Corporate Governance of 2017 is widely used by companies that are publicly listed and other larger companies which see value in the practice of governance.

The rules on corporate governance were incorporated into the CSE Listing Rules from 2007 and made mandatory for listed companies from April 2008 (Senaratne & Gunaratne, 2008). The first titled ‘Code of Best Practice on matters related to financial aspects of Corporate Governance’ was issued in 1997 and thereafter, in 2003, 2008 and 2013 Codes were reviewed and revised through a consultative process in developing the latest version of the Code of Best Practice on Corporate Governance of 2017 (CASL, 2017). These mandatory rules have been developed through a joint initiative of CASL and SEC Sri Lanka in consultation with the CSE and this code of best practice on corporate governance also includes a sustainability section (CASL, 2017). On the other hand, the Central Bank of Sri Lanka (CBSL) has also issued (a) a mandatory code of corporate governance, as the Banking Act Direction No. 01 of 2008 on Corporate Governance for Licensed Commercial Banks in Sri Lanka in April 2008, with which banks are expected to comply fully by 1<sup>st</sup> January 2009 and (b) Direction, No. 3 of 2008 on Corporate Governance for finance companies registered under Section 2 of the Finance Companies Act, No. 78 of 1988, which was mandatory from 2009 (Senaratne & Gunaratne, 2008).

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<sup>18</sup> Prior to 2015, the General Treasury, Ministry of Finance and Planning, and Line Ministries were responsible for establishing accounting standards for the public sector. The Institute of Chartered Accountants of Sri Lanka’s (CA Sri Lanka) role was to collaborate with the aforementioned bodies to adopt the standards.

## 5.6 Accountancy profession in Sri Lanka



*Figure 5.1: PAOs in Sri Lanka (Source: Author)*

As shown in Figure 5.1, the Institute of Chartered Accountants of Sri Lanka (CASL), the Institute of Certified Management Accountants of Sri Lanka (CMASL) and Association of Accounting Technicians of Sri Lanka (AATSL) are the three national professional accountancy organisations in Sri Lanka (IFAC, 2019). These three national professional accountancy organisations in Sri Lanka, together with the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB), share responsibility for regulating the accountancy profession in Sri Lanka (IFAC, 2019).

As stated in IFAC (2019), CASL was founded in 1959 with the Act of Parliament No. 23 of 1959. It is the largest professional accountancy organisation in Sri Lanka and the national accounting and auditing standard setter for accounting, auditing and public-sector standards. Only members of the CASL are authorised to conduct audits of public interest entities also known as SBEs. CASL is responsible for establishing initial professional development and continuing professional development requirements for Chartered Accountants. CMASL was established under the Institute of Certified Management Accountants of Sri Lanka Act No. 23 of 2009 and is the regulator for the certified management accounting profession in Sri Lanka who mandate the management accounting standards as well as standards of professional conduct and ethics for members (IFAC, 2019). Both CA SL and CMA SL are members of International Federation of Accountants (IFAC), South Asian Federation of Accountants (SAFA) and the Confederation of Asian Pacific Accountants (CAPA). AAT SL was registered under the Companies Act No. 7 of 2017 and is responsible for administering the Accounting Technician qualification and

monitoring the conduct of Accounting Technicians in Sri Lanka. AAT SL is a member of CAPA and also admitted as an IFAC Associate (IFAC, 2019).

Notwithstanding the aforementioned three professional accountancy organisations who regulate the accountancy profession in Sri Lanka, the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) was constituted under the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 to monitor and enforce compliance with accounting and auditing standards and oversee audit quality in the financial statements of SBEs (IFAC, 2019). Thus, all SBEs are required to submit annual audited financial statements to the SLAASMB. As an audit oversight entity, its functions include monitoring compliance with accounting and auditing standards, conducting on-site reviews of audit firms to determine compliance with auditing standards, including Code of Ethics, establishing quality assurance arrangements, and implementing adequate investigation and disciplinary proceedings, accompanied by appropriate sanctions (IFAC, 2019). The Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 stipulates that SLAASMB investigate violations and report them to the respective professional accountancy organisations in Sri Lanka to take appropriate actions. The SLAASMB is a member of the International Forum of Independent Audit Regulators.

The three National Accounting Bodies or the three PAOs in Sri Lanka being members of IFAC provides proof for the fact that Sri Lanka has reached great heights in the accounting profession and is the first in the world and the South Asian Region (CMASL, 2018, p.4). Supporting evidences was also found in CMASL (2018), in which the President IFAC states that Sri Lanka has many nominees for IFAC committees and the independent standard-setting boards (p.13). For example, while within IFAC leadership, the PAO Development Committee is chaired by Sri Lanka, Sri Lanka also lends its experience to the International Standard Setting Boards such as International Ethics Standard Board for Accountants and International Accounting Education Standards Board which are also being served by Sri Lanka.

### **5.6.1 Accounting education in Sri Lanka**

The initial professional development (IPD) and continuing professional development (CPD) requirements for professional accountants in Sri Lanka are established by the three professional accountancy organisations (PAOs): (1) the Institute of Chartered Accountants

of Sri Lanka (CASL), (2) the Institute of Certified Management of Accountants of Sri Lanka (CMASL), and (3) the Association of Accounting Technicians of Sri Lanka (AATSL).

In all three PAOs, IPD requirements for students and CPD requirements for its members are aligned with International Education Standards (IESs) developed and approved by the International Accounting Education Standards Board (IAESB) (IFAC, 2019). International Education Standard (IES) 7–Continuing Professional Development prescribes the continuing professional development (CPD) required for professional accountants to develop and maintain the professional competence necessary to provide high-quality services to clients, employers, and other stakeholders, and thereby to strengthen public trust in the profession (IFAC, July 2012). International Education Standard (IE) 8–Professional Competence for Engagement Partners Responsible for Audits of Financial Statements (Revised) prescribes the professional competence that professional accountants are required to develop and maintain when performing the role of an Engagement Partner responsible for audits of financial statements (IFAC, December 2014).

As stated in IFAC (2019), all professional accountants in Sri Lanka are subject to investigative and disciplinary (I&D) procedures established by the three professional accountancy organisations, as per the institutes’ respective rules and regulations, and additionally, auditors of specified business enterprises’ (SBEs), who must be members of CA Sri Lanka are also subject to I&D procedures of the Sri Lanka Accounting and Auditing Monitoring Board (SLAASMB). The ethical requirements (Code of Ethics) for professional accountants in Sri Lanka are also established by the aforementioned three professional accountancy organisations and it is mandatory to adhere to ethical requirements for all professional accountants.

The respective Codes of Ethics of CASL and AATSL are aligned with the 2016 IESBA (International Ethics Standards Board for Accountants) Code of Ethics, while CMASL indicates its Code is in line with the 2012 IESBA Code of Ethics and it is undergoing a review of the 2016 Code with a view to adopt by May 2018 (IFAC, 2019). The ‘Institute of Chartered Accountants of Sri Lanka Code of Ethic 2016’ is based on the Handbook of the Code of Ethic for Professional Accountants, 2016 Edition of the IESBA, published by the IFAC in August 2016 and is used with permission of IFAC (CASL, 2016).

## **5.7 Role of PAOs in Sri Lanka in promoting integrated reporting (IR)**

The above-mentioned PAOs have been playing a significant role in the IR agenda in Sri Lanka by engaging and participating in many initiatives in providing and sharing knowledge and insights amongst all the parties interested and engaged in the concept of IR.

CA SL has organised a series of events since 2012 focusing on IR, in its efforts to educate the country's corporate sector and business leaders on the importance of adopting the globally acknowledged concept of IR (CASL, 2019). As the national body of accountants, CA Sri Lanka launched the South Asia's first Integrated Reporting Council in Sri Lanka (IRC SL) in 2016 (this is explained in detail in the next sub-section 5.7.1).

CA has placed a special focus in educating and supporting organisations on the importance of the IR concept in recent years by way of conducting and organising workshops, panel discussion sessions, webinar series, etc. The present researcher was invited to engage and participate as the resource person in one of the workshops, named "Integrated reporting: A reality check with IIRC's guiding principles", on 26<sup>th</sup> March 2018, organised by the CASL, in the Members Lounge in CA SL. Following the workshop, the present researcher also participated as a panellist in the 'panel discussion' together with other panellists who represented the corporate sector, annual report producing companies, IRCSL and IR consultancy organisations.

CMA SL also continued to make important contributions to the accounting profession on both a local and regional level. It has also been playing a significant role in the IR agenda in Sri Lanka by engaging and participating in many initiatives in providing and sharing knowledge and insights amongst all the parties whoever interested and engaged in the concept of IR. At the outset, CMA SL organised the "CMA Excellence in Integrated Reporting Awards" (IR awards are explained in sub-section 5.7.3) which was held concurrently with the Global Management Accounting Summit on the theme 'Business Resilience through Integrated Reporting' in Colombo, Sri Lanka in 2015. In July 2018, CMA SL hosted the 'Global Management Accounting Conference' on the theme 'Integrated Reporting-Future of Corporate Reporting' in Sri Lanka. The four main sessions held at that conference were, IR and value creation; the role of integrated thinking; implementing integrated reporting; and a panel discussion on practical experiences and the way forward in IR. In this conference, the present researcher presented a research paper

named “Early adoption of integrated reporting: A case of a Sri Lankan listed company” in a concurrent session held at Cinnamon Lakeside, Colombo, Sri Lanka.

### **5.7.1 Integrated Reporting Council in Sri Lanka (IRC SL)**

On 5th July 2016, under the patronage and guidance of the IIRC, the Integrated Reporting Council (IRC) was established in Sri Lanka with an aim of enhancing the best practices of corporate reporting amongst corporates in the country. IRC SL comprises of members from professionals from the accounting (ex; CA SL, ACCA, CIMA, CMA SL) and non-accounting sectors, representatives from universities (ex; Colombo, Sri Jayawardanapura and Kelaniya Universities), regulators (ex; SEC, SLAAAMB, Central Bank, CSE, Auditor General), chambers (ex; Ceylon Chamber and National Chamber), multi-national institutions (ex; UN Compact, Asian Development Bank) as well as representatives from the companies (who applied for the IR award at the 51st Annual Report Awards ceremony organised by CA Sri Lanka) (CA SL, 2019x). CA Sri Lanka, as the national body of accountants, pioneered the introduction of the IR concept as well as the Integrated Reporting Council in Sri Lanka. CA Sri Lanka President has noted that:

"There is no doubt that in recent time, IR has taken increased importance in the context of creating corporate value and sustainability to organisations, and in ensuring Sri Lanka's corporates are in line with these relevant trends, CA Sri Lanka in association with the IIRC has taken the leadership in providing knowledge and insights on this important concept across Sri Lanka" (CA SL, 2019).

The IIRC Director Market International IR, has said that:

“This is the first IRC in the whole of Asia. I expect it to impact Sri Lanka quite positively in terms of how businesses with strategy and resilient business value can attract local and global markets and enhance financial stability and sustainable development” (DailyFT, 2016).

To ensure stability along with sustainability over the long term, IRC SL expects its members to provide guidance on linking environmental, social and governance with financial information which will help create sustainable economic value to organisations across Sri Lanka.

The main purpose of the IRC SL is to establish a platform to network people who are interested in the concept of integrated reporting and who have an interest in implementing it in their corporate reports. The stated objective of the IRC SL is to promote inclusive and concise corporate reporting of how entities create value through their business model,

stakeholder engagement, risk and governance processes deployed to achieve sustainable development (CA SL, 2019). IRC SL Sri Lanka also engages in identifying related needs of all stakeholders of IRC SL and interest in IR issues and the best manner in which those needs could be fulfilled; raising the awareness of integrated reporting by initiating seminars, conferences, roundtable discussions and technical publications; disseminating knowledge on integrated reporting among corporates and accounting professionals and provide guidance on integrated reporting; collaborating with statutory bodies for promoting IR; and carrying out research and studies in relation to IR.

The chairman of the IRC SL has stated that, while integrated reporting has gathered momentum, the concept is still at early days of development and IRC SL is established to promote, enhance knowledge and develop the sustainability of integrated reporting in Sri Lanka (CA SL, 2019). He further added that IIRC is very keen that Sri Lanka set up its own IRC SL and that it has made progress in this area over time.

As identified in section 1.3 of Chapter 1, formation of the IRC SL is one of the reasons to carry out this study in the Sri Lanka context.

### **5.7.2 IR publications in Sri Lanka**

CA SL and IRC SL have continued to be at the helm in helping organisations, particularly listed companies in Sri Lanka, making them understand the importance and benefits of IR.

In 2015, CASL in collaboration with IRC SL launched the report 'A Preparer's Guide to Integrated Corporate Reporting' in order to support and facilitate organisations to embark on the IR journey by providing localised guidance to the corporate community and to help them produce a more comprehensive integrated report while moving away from the conventional annual reports.

The president of CA SL highlighted that in recent years IR has gained increased importance in the context of creating corporate value and sustainability to organisations and stated that:

“In ensuring Sri Lanka’s corporates are in line with these relevant developments, the institute took the lead to provide leadership and insight by launching several initiatives to educate organisations in the country on the frameworks...IR is an important framework because it aims to bridge the gap between financial and non-financial capitals, and in the current context with expectations from corporates rising, this is very pertinent and we believe more and more organisations should embrace this framework

if they are to enjoy performance, financial stability along with sustainability..... We have also included a special award category for integrated reporting in the Annual Report Awards, to promote the framework among companies in the country” (DailyFT, 2017)

In the ceremonial launch of the above publication, the Executive Director of the UNGC said:

“As business has gone global, its relationship to society is fundamentally changing. The ability to proactively manage environmental, social and governance issues is increasingly critical to long-term success. And a growing number of companies, investors and policy makers understand the importance of transparently reporting on these issues. IR is rapidly becoming indispensable for companies to navigate this transition” (CA SL, 2019x).

Further, Jonathan Labrey, Chief Strategy Officer of the IIRC, has welcomed this publication and stated that:

“the IIRC very much hopes that this document will support and encourage business in Sri Lanka, as they begin the journey towards IR adoption. It is clear that the momentum towards the adoption of IR globally is building, and organisations such as CA Sri Lanka are crucial in offering practical tips, as businesses evolve their reporting to communicate a clear, concise, integrated story that explains how all of their resources are creating value” (CA SL, 2019x).

The Chairman of IRC SL has elaborated during various forums that it became evident that there was a need to issue a separate publication on the guiding principles, as some organisations did not have the required clarity and understanding on these principles (The Accountant Online, 2017). As a result, in 2017, they published another report as ‘A Supplement to A Preparer’s Guide to Integrated Corporate Reporting-Supplement 001’, emphasising and providing the implementation assistance and guidance on the seven guiding principles in IR to the corporates who engaged in IR (DailyFT, 2017). The latest publication was built on fundamental principles relevant to the IIRF, with an aim of helping Sri Lankan organisations comprehend the requirements based on the guiding principles of the IIRF. Thus, the latest publication expands on several vital components, including Materiality, Stakeholder Engagement, Connectivity, Reliability and Completeness, Consistency and Comparability, which are believed to be very relevant to corporates in Sri Lanka (DailyFT, 2017). The Chairman of IRC SL further said that:

“There has been a positive outcome shown by companies using the IR framework, and as a country that has a growing consumption, along with strong urbanisation, there is an increasing need for corporates to understand their responsibilities to all stakeholders and even the environment” (DailyFT, 2017).



### **5.7.3 IR awards in Sri Lanka**

The two main PAOs in Sri Lanka, namely CA SL and CMA SL, organise two key awards ceremonies, “Annual Report Awards” and “CMA Excellence in Integrated Reporting Awards”, to promote voluntary adoption of IR among a wide range of business sectors in Sri Lanka, such as CSE listed companies, non-listed companies, state owned enterprises or public sector companies, not-for-profit organisations, and small and medium scale enterprises (SMEs), and to enhance the quality of corporate reporting in the country, which will be beneficial to investors and stakeholders.

#### **5.7.3.1 “CMA Excellence in Integrated Reporting Awards”**

CMA SL organised the “CMA Excellence in Integrated Reporting Awards” on 5<sup>th</sup> July 2018, for the 4<sup>th</sup> consecutive year since 2015.

According to CMA SL, the purpose of the “Excellence in IR Awards” is to promote Sri Lankan companies both listed and unlisted and state institutions to undertake integrated reporting (CMA SL, 2018x).

The IFAC President, Rachel Grimes acknowledged this “Excellence in IR Awards” in 2018 with her presence and stated:

IFAC strongly supports and encourages the involvement of accountants in capturing broader aspects of value creation. Accountants possess the technical and business skills to advance integrated thinking and reporting in terms of measurement, valuation and organisational management..... Congratulations to CMA Sri Lanka and all the award winners and participants who have given pride of place to integrated reporting, and in doing so have made Sri Lanka a leader in the successful adoption and implementation of integrated reporting (CMA SL, 2018x).

She also stated that IFAC is working with the IIRC and IFAC member bodies to promote IR among the public and private sectors in their countries.

In addition, one of the panel of judges in “CMA Excellence in Integrated Reporting Awards”, and the IRC SA Working Group Member, Honorary Member and IIRC Ambassador, Graham Terry, in 2018, stated in the IRC SA guest blog that:

In their summary report, the panel of international judges – of which I was honoured to be a part of – commended companies on the strides they were making from year to year. The judges added that these improvements were being seen not only in the leading reports, but across a broad section of reports. Notably, there was a growing understanding of value creation and the Guiding Principles set out in the International

In 2017, the awards were presented by IIRC Chief Executive Officer Richard Howitt in Sri Lanka. As per the Judges Report of the “CMA Excellence in Integrated Reporting Awards 2017”, although there was no regulatory requirement for companies in Sri Lanka to adopt integrated reporting, there was an increasing trend observed in the number of companies producing integrated reports. In that report, judges noted a significant improvement in the quality of integrated reports, and they were particularly pleased by the progress made in areas highlighted as ‘needing improvement’ in the preceding year. One such improvement noted was the description of the value creation process and the other was the description of corporate strategy.

All CSE listed companies under the category A, and under the category B, private companies, state owned enterprises, small and medium enterprises (SMEs), non-governmental organisations (NGOs), non-profit organisations (NPOs), chamber of commerce, educational institutes, were eligible to apply for this award (CMA SL, 2018x). The competition was also opened to overseas companies in the South Asian Region.

As stated in CMS SL (2018x), as the first step in the process of selecting the qualifying reports, a review process was carried out to select the reports of the top 50 companies (in terms of the size of their market capitalisation and the categories of large, medium and small companies) of category A, which are likely to be producing the better reports. The same basis was considered for category B companies for the sector awards. Next, the marking process was carried out in two steps for the two categories. The top 50 reports of category A were marked on a simple basis to measure whether or not the companies are addressing the principles of IR. Out of the top 50 reports, 20 were chosen by the technical evaluation panel for detailed marking. Then, the best 20 integrated reports selected by the technical evaluation panel were submitted to a panel of judges, consisting of a minimum of three local and foreign judges who were responsible for the selection of 10 excellence IR reports, 1st, 2nd and 3rd place winners, certificates of merit, sector awards and special awards. The marking plan for judging integrated reports was based on the Guiding Principles, Content Elements and Fundamental Concepts which appear in the IR framework issued by the IIRC and special emphasis was given to criteria such as strategic focus and future orientation, connectivity of information, value creation and reliability and completeness. In the 2018 awards, while recognising the importance of integrated

thinking, a merit award was granted for organisations embedding integrated thinking into business practices. One of the panel of judges in the 2018 awards, Graham Terry, further stated that:

Having been involved in the judging process over the past four years I've noticed great changes in quality of the reports. Major improvements occurred when the International <IR> Framework was published, and the companies clearly learn from each other and watch the developments in other countries. Companies were quick to embrace the capitals concept and their understanding of the importance of the capitals and the way trade-offs occur has improved each year. Companies have also worked hard to show the connectivity of the external environment, strategy, risks and opportunities and stakeholder engagement using icons, cross-referencing and diagrams..... Their greatest challenge, however, is to meet the conciseness principle because of local reporting requirements, but some of the companies are now preparing a stand-alone integrated report which makes up the front section of the annual report. (IRC SA, 2018).

#### **5.7.3.2 “Annual Report Awards” by CA Sri Lanka**

CA SL organised the “Annual Report Awards Competition” on 5<sup>th</sup> July 2018, for the 54<sup>th</sup> consecutive year. The CSE has been the strategic partner powering the “Annual Report Awards” as a high-profile corporate-level competition which promotes transparency, accountability and social responsibility since 2014 (CA SL, 2019z).

Objectives of this annual report awards were to encourage effective communication to stakeholders through publication of informative annual reports, to promote effective presentation of financial and non-financial information and to comply with legislative requirements and Sri Lanka Accounting Standards (CA SL & CSE, 2018).

With a history spanning over half a century, the competition, which is recognised as one of the country's most coveted corporate-level competitions, has carved an important niche as a platform that has significantly helped organisations from multinationals, to conglomerates, NGOs, NPOs and even SMEs to improve transparency, accountability and good governance in financial reporting and to produce cohesive, clear and customised annual reports, while also enhancing Sri Lanka's reporting standards in line with best global practices (CA SL, 2019z).

For the CA Sri Lanka “Annual Report Awards”, any organisation representing the 20 business sectors in CSE and representing five other sectors, namely, state banks, media and entertainment companies, state corporations and statutory boards, NPOs including NGOs and SMEs in Sri Lanka that produces an annual report could apply. Apart from the overall winners and the winners under each sector, the competition honoured organisations

for best corporate governance disclosure, CSR Reporting, management commentary, integrated reporting (IR), IR-best disclosure on capital management, IR-best disclosure on business model and certificate of compliance.

Judging was carried out at three rounds. Following the initial selection process which was conducted by a technical marking panel that consisted of over 200 Chartered Accountants, the shortlisted annual reports were subject to an intense technical review by a panel of industry experts. At the final stage of judging, the shortlisted annual reports were reviewed by the final panel of judges. The overall winners were selected purely on merit, irrespective of the industry sector (CA SL & CSE, 2018).

As the national body of accountants in the country, CA SL has been at the forefront in ensuring that the Sri Lankan businesses adhere to global requirements (CA SL, 2019). Addressing a press conference, the President of CA SL said that:

...the Annual Report Awards Competition organised by CA SL has built a reputation as an important competition that promotes companies to produce high quality annual reports that are cohesive, clear and go beyond the statutory boundaries of reporting (CA SL, 2019).

The Chairman of the Annual Report Awards Committee also added that:

A meticulously formulated annual report helps develop the capital market in the country, therefore ensuring the availability of information in a clear, complete and concise manner which is vital for all stakeholders including shareholders and potential investors which will allow them to make informed investment decisions. ...it is refreshing to see that organisations from blue chip companies to even small time non-profit organisations have continuously demonstrated their commitment towards best practices in annual corporate reporting (CA SL, 2019x).

## **5.8 Timeline of IR in Sri Lanka**

The following table provides an overview of the important events marked on the IR agenda in Sri Lanka over the period from 2012 to the present.

Table 5.1: Timeline of IR in Sri Lanka

| Activity  | Initiated institutions and organisations       | Date                          |
|---|--|-------------------------------|
| Workshop on “IR: Moving Beyond the Basics”  | CA SL  | 10 April 2019                 |
| The CMA Global Management Accounting Conference 2018 on the theme “IR- Future of Corporate Reporting” at Cinnamon Lakeside, Colombo.  | CMA SL, IFAC, IIRC and CAPA                    | 4-5 <sup>th</sup> July 2018   |
| Workshop on “IR: A reality check with IIRC’s guiding principles” (the present researcher as the resource person)  | CA SL  | 26 March 2018                 |
| The Official Integrated Reporting Convention 2017, named “Unlocking value for future-fit organisations” in Amsterdam, Netherland-Sri Lanka had representations from CMA SL, Diesel and Motor Engineering Plc, SheConsults (a consultancy company in IR) | IIRC   |                               |
| The workshop titled “IR: Kick start the journey to better business reporting”   | CA SL, IRC SL and Deakin University, Australia | 25 September 2017             |
| CMA National Management Conference and the CMA Excellence in Integrated Reporting Awards 2017 (presented by Richard Howitt, the CEO of IIRC)  | CMA SL, IIRC                                   | 17-19 <sup>th</sup> July 2017 |
| Published “A Supplement to a Preparer’s Guide to Integrated Corporate Reporting”  | CA SL and IRC SL                               | 14 July 2017                  |
| Launch of IRC SL  | CA SL and IIRC                                 | 5 July 2016                   |
| A half day workshop on “Achieving Excellence in IR”   | CMA SL   | 18 March 2016                 |
| The CMA Global Management Accounting Summit 2015 on the theme “Business Resilience through Integrated Reporting” and “CMA Excellence in IR Awards” at Hotel Cinnamon Lakeside, Colombo  | CMA SL, IFAC, IIRC and CAPA                    | 27-29 July 2015               |
| Published IR implementation guide for corporate sector, named “Preparer’s Guide to Integrated Corporate Reporting”  | CA SL  | 27 July 2015                  |

| <b>Activity</b>  | <b>Initiated institutions and organisations</b>                       | <b>Date</b>     |
|--|---|-----------------|
| Professor Mervyn King championed the importance of IR at Corporate Directors Programme launch organised by CA SL and SEC SL.   | CA SL, SEC SL and IIRC  | 23 May 2014     |
| The South Asia Conference on “Financial Reporting for Economic Development (FRED)” highlighted on financial reporting along with IR  | CA SL, CAPA, IFAC, World Bank   | 19-21 May 2014  |
| Three separate events by CA SL: A roundtable discussion, a CFO Forum and a seminar on IR on “How to be better a corporate: The numerous benefits of IR” with IIRC Relationships Director | CA SL and IIRC  | 17 July 2013    |
| CA Sri Lanka hosted the International Conference on IR in Waters Edge, Colombo   | CA SL, IIRC and Confederation of Asian and Pacific Accountants (CAPA) | 20 October 2012 |

Source: Based on CA SL (2019) and CMA SL (2019)

The following section is also considered as a remarkable milestone in IR in Sri Lanka.

### **5.8.1 Launch of IIRC integrated report 2017 with Sri Lanka**

The IIRC has partnered with Smart Media The Annual Report Company, headquartered in Sri Lanka, to produce the IIRC 2017 integrated report, named “Breaking Through”, through multiple channels, including, for the first time, an interactive online HTML version of the annual report and an executive summary for mobile devices and a video clip (Daily FT, 2018).

The Chairman of Smart Media the Annual Report Company said:

“Report preparers often seek help with communicating their story while meeting the need to be concise and complete. The answer to resolving this apparent paradox is to provide stakeholders with a choice of channels in a manner that best suits them through a combination of on-line HTML, print, mobile or video. The IIRC’s Integrated Report 2017 does just that” (Daily FT, 2018).

He has also stated that in Sri Lanka IR has moved past the breakthrough phase and is firmly in the implementation stage (Daily FT, 2018).

As the global coalition of the IR concept, IIRC has partnered and placed the trust and with a Sri Lankan annual report company in preparing their annual report of 2017.

### **5.9 IR “reaching maturity” in Sri Lanka**

According to the CEO of IIRC, the worldwide shift for businesses to integrate their external relationships and resources into their financial reporting is now on the path to maturity in Sri Lanka (DailyFT, 2017b). Based on Gunarathne and Senaratne’s (2017) study, he further stated that around 40 Sri Lankan companies have adopted IR and its growth has become a market trend in the country. He noted that the above study proves that the take-up of IR has gone beyond the ‘early adoption’ phase and has entered the ‘diffusion’ stage, with increasing numbers of companies adopting IR because they recognise that this is now becoming a market trend.

In his presence and at the keynote speech at the CMA Excellence in IR Awards ceremony, he stated that:

“What is making Sri Lanka a ‘hot spot’ for IR, is the forty companies who have decided to apply for this award, have demonstrated the real momentum which exists here to embrace the integrated thinking which lies behind these new reporting practices...I am delighted that a company which was one of the pilots who helped us draw up the IIRF and who still plays an influential advocacy role as part of our international business network, continues to enjoy real success through IR” (DailyFT, 2017b).

The CEO of IIRC has also praised SEC SL for encouraging CSE listed companies to adopt IR as a framework that provides a holistic view of the corporate value creation process in their ‘Capital Market Strategy 2020’ and highlighted that as with other fast-growing economies across Asia, IR can be a key driver for developing Sri Lanka’s capital markets, which itself leads to accelerated economic growth (DailyFT, 2017b).

He continued stating that:

“Businesses wanting to meet the challenge of international competitiveness, better manage staff turnover and inclusiveness, and to embrace global sustainable development goals, can use integrated reporting as a tool for delivery. My message is that this delivers not just for individual businesses locally, but for the Sri Lankan economy as a whole... Whether it is for trade, for attracting investment, or simply for the reputation of having practices which reflect the best international benchmarks, integrated reporting can be part of Sri Lanka’s future economic success” (DailyFT, 2017b).

### **5.10 Chapter summary**

This chapter provides information on the business, financial and professional environment of Sri Lanka as the context of this study. This also emphasises the role of professional institutions in promoting IR in Sri Lanka through the establishment of IRC SL, publications on IR and IR awards. Details of the IR activities carried out in Sri Lanka are also provided in this chapter.

This chapter sets out the base for the detailed methodological approach adopted by the present study in exploring IR in Sri Lanka and it is presented in the succeeding chapter, Chapter 6, as the research methodology.



## **Chapter 06**

### **Research Methodology**

#### **6.1 Chapter introduction**

Given the key research questions in exploring integrated reporting in Sri Lanka, this chapter discusses the comprehensive research methodology used in the present study. The ensuing sections of this chapter are presented as follows. Section 6.2 describes the philosophical stances and section 6.3 presents the research paradigm of the present study. Section 6.4 explains the research approach adopted. The research design is discussed in section 6.5. Section 6.6 elaborates the sample selection process of this study. Triangulated research methods of data collection and the sources of data are detailed in section 6.7. Section 6.8 outlines the data analysis processes. Selection of the period is explained in section 6.9. Development of the integrated reporting disclosure index is elucidated in section 6.10. Rigour in qualitative research is unveiled in section 6.11. Section 6.12 concludes the chapter.

#### **6.2 Research philosophy**

Epistemology and ontology can be understood as a ‘research philosophy’ or more simply as a set of values that drive all research project decisions, and in fact, it is further claimed that all research has underlying assumptions about a phenomenon that depend on ontology and epistemology (Burrell & Morgan, 1979), even when these are inaccessible to the conscious mind (Daniel & Harland, 2017). Going further, they have also stipulated that, in conducting research, these two philosophical concepts, ontology and epistemology, being called the ‘research philosophy’, are linked in nature and principally describe what is valued and how values inform decisions and actions.

On the other hand, Daniel and Harland (2017) described these two branches of philosophy as two faces of the same coin of the conception of knowledge, while ontology refers to what constitutes knowledge with reference to the nature of beliefs, views and values that one holds about a specific body of knowledge, epistemology refers to particular ways of knowing, such as scientific procedures (including tools, processes and techniques), used to investigate a problem, whether through empirical or logical and conceptual or theoretical research.

The ontology and epistemology of the present study have been made explicit based on Jonathan Grix's conceptual work (see Figure 6.1) for beginning researchers in the social sciences, which suggested that there is interdependence and a direct relationship between ontology, epistemology and sources of data and methods (Grix, 2002).

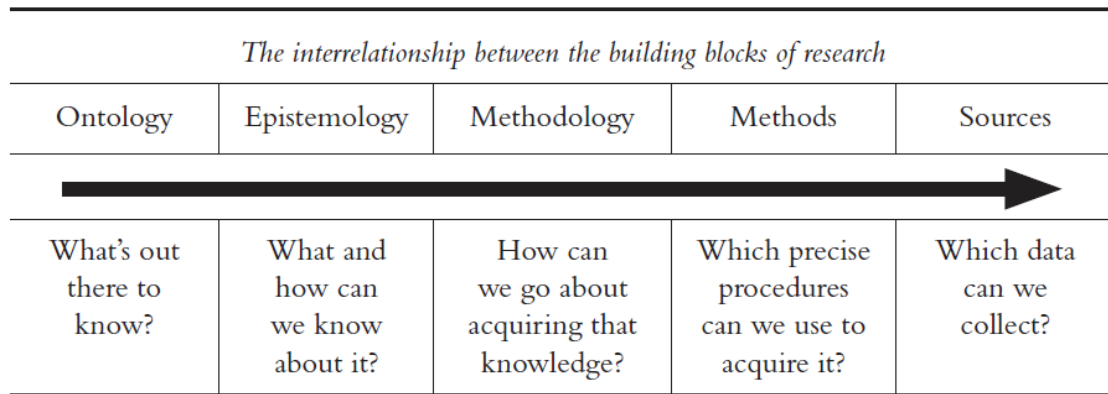


Figure 6.1: The building blocks of research (Source: Grix, 2002)

The present researcher's ontological and epistemological position in understanding others' research work and in producing the present research is influenced by domain factors (Daniel & Harland, 2017), such as the knowledge of the present researcher through education and training, on the key research phenomenon (e.g. the IR in Sri Lanka) and personal factors (Daniel & Harland, 2017), such as the researcher's experience in this whole research process. Based on Grix (2002), the ontological stance of the present study is what is out there to know about integrated reporting in Sri Lanka, which in turn is foundational to the epistemological stance of what and how the present researcher can know about it (i.e. through the organisations which adopt integrated reporting in Sri Lanka). Accordingly, both directed the present researcher on how to acquire that knowledge by setting the research questions and deciding on the particular research methodology as the qualitative research approach. Going further, the ontological and epistemological stances have also directed the present researcher in determining which precise procedures can be used as research methods and which data can be collected as sources of data. In this way, the present researcher acknowledges the role of epistemology and ontology in shaping the process of research as well as the quality of its outcome (Burrell & Morgan, 1979; Daniel & Harland, 2017).

### 6.3 Research paradigm

As argued by Daniel and Harland (2017), another way of learning about ontology and epistemology is to claim a research paradigm that correlates with certain ontological and epistemological positions. These typical paradigms are shown in Table 6.1.

Table 6.1: Five research paradigms with foundational knowledge values (extracted from Daniel & Harland (2017))

| <i>Paradigm</i>  | <i>Ontology</i>                                | <i>Epistemology</i>                 |
|------------------|--|-------------------------------------|
| Positivism       | An objective testable reality                  | Testable theories of knowledge      |
| Critical realism | An objective reality that may not be testable  | Individual understanding of reality |
| Interpretive     | Reality created by the individual              | Knowledge unique to the individual  |
| Critical theory  | Reality is socially constructed and interested | Knowledge not separated from power  |
| Pragmatism       | Reality is driven by experience                | Knowledge needs to have utility     |

In this way, the present study has chosen the research paradigm as an ‘interpretive paradigm’ that suits its research purposes adopting the corresponding ontology and epistemology, based on the facts that the reality of the present study is created by the individual or the participant and that knowledge is unique to the participant. Based on Table 6.1, they further noted that, in Interpretivism, the reality is understood at multiple contexts and is the reality that a researcher constructs based on his/her values and experiences.

In qualitative research, at every stage of the research process, personal interpretation is required; for example, in deciding the research methods and learning how to carry out the research, personal preferences and conceptions of research become explicit and every decision the researcher makes is based on his or her values (Daniel & Harland, 2017). They further claimed that a qualitative researcher is required to filter and interpret conceptual ideas and empirical data which depends on the researcher’s ontological and epistemological values and, in turn, readers will also construct their own interpretation of the story they read through the research because they will also have an ontological and epistemological stance.

## **6.4 Research approach/Research tradition**

Choosing the right research approach provides clarity and purpose for a research project, including the role of the researcher, the various stages of the project, the method of data collection, the sampling process and the methods for data analysis and interpretation (Daniel & Harland, 2017). They argued that qualitative research is grounded in a subjective and interpretive paradigm as an exploratory research that is essentially inductive (as a bottom-up approach, theory and knowledge is grounded on the research problem and on the data), as ideas and concepts emerge from the data and evidence gathered from an empirical study and qualitative research is interpretive because all the data, regardless of which approach is taken, requires interpretation by the researcher.

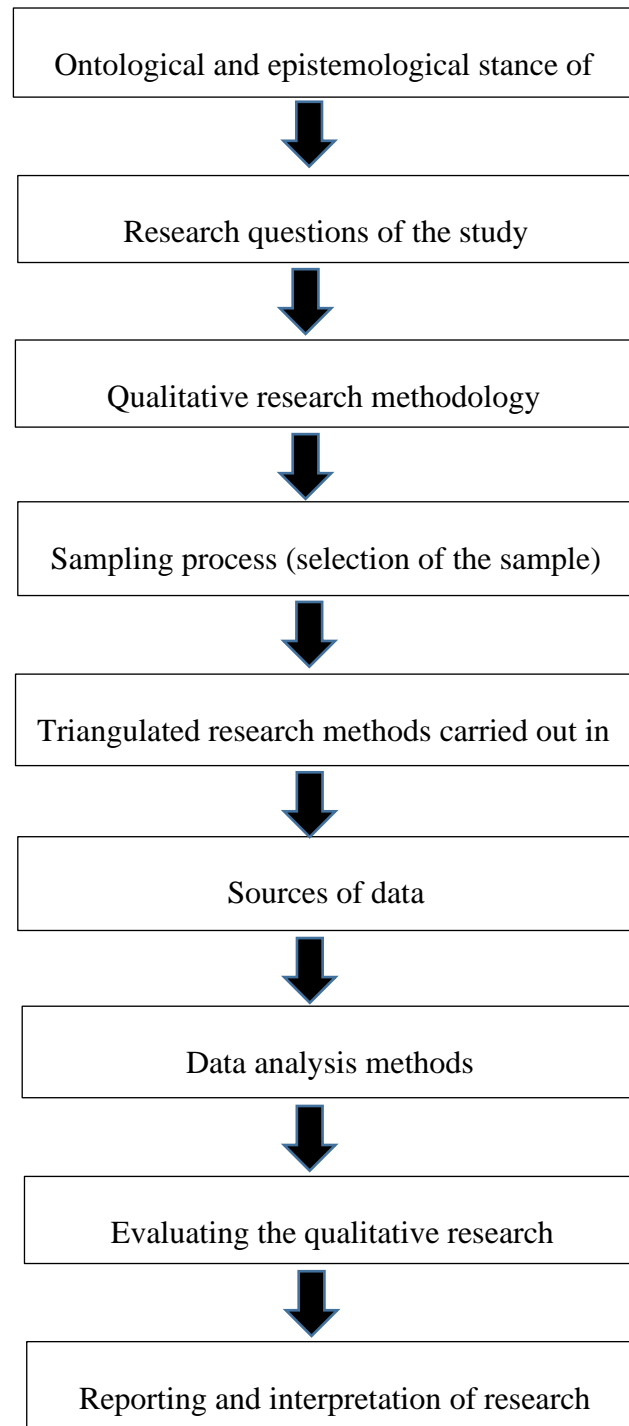
Based on the above-mentioned research philosophical stances (previous section 6.2) and research paradigm (previous section 6.3), the present research conducts an exploratory study on integrated reporting in Sri Lanka, and thus adopts the ‘qualitative research approach’. Further, the unit of analysis of the present study is the key phenomenon being explored which is led by the individual organisations and experiences of interview participants of such companies, and how such participants relate their experiences to the key research phenomenon of the study, i.e. integrated reporting.

## **6.5 Research design**

A good research design helps, navigate through the complexity and structure of the research while guiding the researcher throughout the process of undertaking research, from beginning to the end (Creswell, 2014; Daniel & Harland, 2017). The present study has decided on the qualitative research approach as the best approach to pursue the research questions, as stated in Chapter 1. Figure 6.2 depicts the research process, how the present research is planned from the beginning to end in approaching the analysis and outcomes of the research based on the research questions. Research process provides a clear structure and direction for researchers to undertake to produce useful research outcomes (Daniel & Harland, 2017).

As in the research process shown in Figure 6.2, the research questions have been stated in Chapter 1. The ontological and epistemological position has explained in the sections 6.2 and 6.3 of this chapter and the qualitative research approach is explained in section 6.4. In the following sections of this chapter, the sampling process (in section 6.6), the

triangulated methods of data collection and the sources of data (in section 6.7), data analysis method (in section 6.8) and evaluating the qualitative research (in section 6.11) have discussed. The reporting and the interpretations of the analysis and research outcomes have been presented in Chapter 7 to Chapter 12.



*Figure 6.2: Research process of the present study (Source: Author)*

## 6.6 Selection of the research sample

In selecting the sample, the present study first framed the sample population for the research context. Sample population comprised a total number of 295 listed companies in the CSE Sri Lanka, representing 20 business sectors (see Appendix 6A) as of 31<sup>st</sup> July 2017.

The sample selection process involved a series of steps. The purpose of this sample analysis is to identify the adoption of IR in Sri Lanka over the past years. *First*, the sample population was analysed for 2016, which was the latest available year for the published corporate reports of the total 295 listed companies. The present study began this sampling process in July 2017. In Sri Lanka, the CSE listed companies' financial statements are prepared as of 31st March as their year-end. During the first step, the 2016 corporate reports were downloaded from the CSE website ([www.cse.lk](http://www.cse.lk)). In so doing, the present study downloaded the various types of corporate reports being published by each company listed in the CSE Sri Lanka, paying attention to annual reports, annual integrated reports/integrated report, sustainability reports and corporate governance reports. In order to ensure the inclusiveness of the sample selection process, sample data were re-checked with reference to each individual company's website, which includes all the types of corporate reports each company publicly disclosed.

The *second step* of the sampling process was the word search for the two key words, “integrated report” and “integrated reporting”. Using the ‘Open Full Reader Search’ option in the downloaded pdf version of corporate reports of each of the listed companies, the two key words were searched for the year 2016. In doing so, the present study was mindful of the difficulties of avoiding the results for words such as “integrate” and “integrated”, since the companies might have used those words with the intention of the real meaning of such words, rather using them as the key phenomenon that the researcher was looking for in the research context. Thus, the present researcher was able to analyze carefully each search result with respect to, when, where and by what means the key words have been used in each annual report of each company.

The *third step* continued based on the availability of the two key words for 2016. For example, if the searched results were found for the year 2016 for companies, then, the same search were carried out for the year 2015 for the same companies. Thus, a back-word process was undertaken over the years, in order to search for the availability of the above-

mentioned two key words for the preceding years. Through this backward process of sample analysis, the present study obtained the results of companies which have produced an integrated report or followed integrated reporting, and since when they have adopted integrated reporting in their corporate reporting practices. The year 2011 was found as the point of reference in this sampling process, where no corporate report was found prior to 2011 which was based on integrated reporting, evidencing that none of the CSE listed companies had adopted integrated reporting in Sri Lanka prior to 2011.

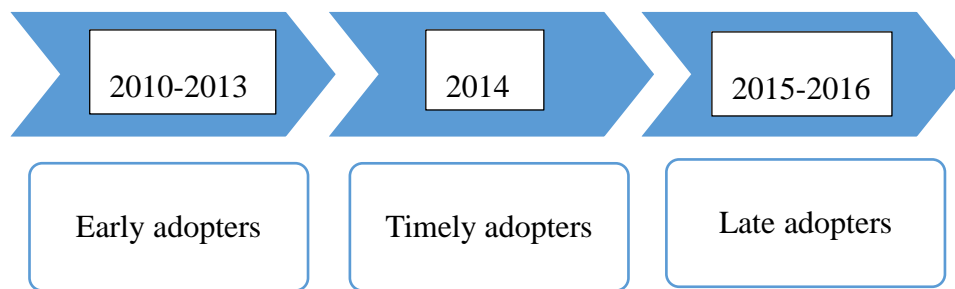
All the evidence that resulted through the above-mentioned steps of the sampling process was recorded in separate Excel sheets with individual attention and reference to each single company categorised under each business sector and each specific year. As a result of this sampling process, a total of 64 companies were found as IR adopters in 2016. Sample composition of IR adopters' is shown in Table 7.1 in the next chapter (refer to Appendix 6A for the summary of the sampling process of the present study over the years 2010 to 2016)

The *fourth step* involved refining the sample. The total IR sample was based on the two key words searched for the sample analysis. Further, this analysis was certain on how each company identified their integrated report. For example, some companies named their report as an integrated report on the front cover, some named their report as such and also disclosed integrated reporting within the content of the report. However, some other companies, without labelling their report as an integrated report on the front cover, reported on integrated reporting disclosures in the content of the report. As in IIRC (2013), the final outcome of the IR process is an integrated report. Therefore, the companies which published integrated reporting disclosures and companies which named their report as an integrated report were identified as integrated reporting (IR) adopters in the sample of this study. A similar method was adopted by Gunarathne and Senaratne (2017), which assured the validity of the sample selection process for the present study. Their study was based on identifying the diffusion of IR in Sri Lanka for the four-year period from 2011 to 2014. The present study also stands in the position of extending the study by Gunarathne and Senaratne (2017) in terms of the sample selection process towards the adoption of IR in Sri Lanka until 2016.

The *fifth step* involved controlling the sample size. In particular, this study's choice of the sample companies was influenced by one of the research questions of the study. To

reiterate, the first research question of this study is to explore the extent and the nature of IR disclosure in the listed companies in Sri Lanka. In December 2013, the IIRC issued the international IR framework as a principle-based framework that was meant to serve as the only available guide to be used by the companies which voluntarily adopt IR in their corporate reporting practices. Therefore, the year 2014 was considered as the benchmark for the analysis of companies which adopt IR in the present study, as the year of the establishment of the IR framework in practice. Companies who adopted IR in 2014 have been named as ‘timely adopters’, whereas companies which adopted IR before 2014 (prior to the establishment of the IR framework) have been identified as ‘early adopters’ (see Figure 6.3). The companies adopting IR after 2014 were grouped as ‘late adopters’. Thus, the controlled final sample consisted of the companies who adopted IR in 2014 and they are the 34 companies illustrated in Appendix 6A as well as in Table 7.1 in Chapter 7.

The following illustration gives a clear understanding of the above explanation.



*Figure 6.3: Classification of IR adopters (Source: Author)*

Although the sampling process was very time consuming, it resulted in a comprehensive, holistic and non-biased sample which would best suit telling the story of the exploratory study of integrated reporting in Sri Lanka.

## **6.7 Research methods of data collection and sources of data**

As explained in the Chapter 3 literature review, the present study found some of the qualitative IR studies which encompassed their data sources using both in-depth interviews and documents analysis and analysing such data using content analysis (for example, Al-Htaybat & von Alberti-Alhtaybat, 2018; Brusca et al., 2018; Chiucchi et al., 2018; Gatti et al., 2018; Gibassier et al., 2018; Lodhia, 2015; Lueg et al., 2016; Silvestri et al., 2017; van Bommel, 2014 etc.). Lodhia (2015) claimed that document analysis provides a general



overview of IR in the selected entities and assists in verifying interview responses and elaborating on the key issues raised by interviewees.

Given the research question to explore the extent and nature of IR disclosure practices in the selected organisations, data were gathered using a triangulated data collection method (using two primary data collection methods) for this study during two phases: documentation review of the selected companies' corporate reports and semi-structured interviews as depicted in Figure 6.4.

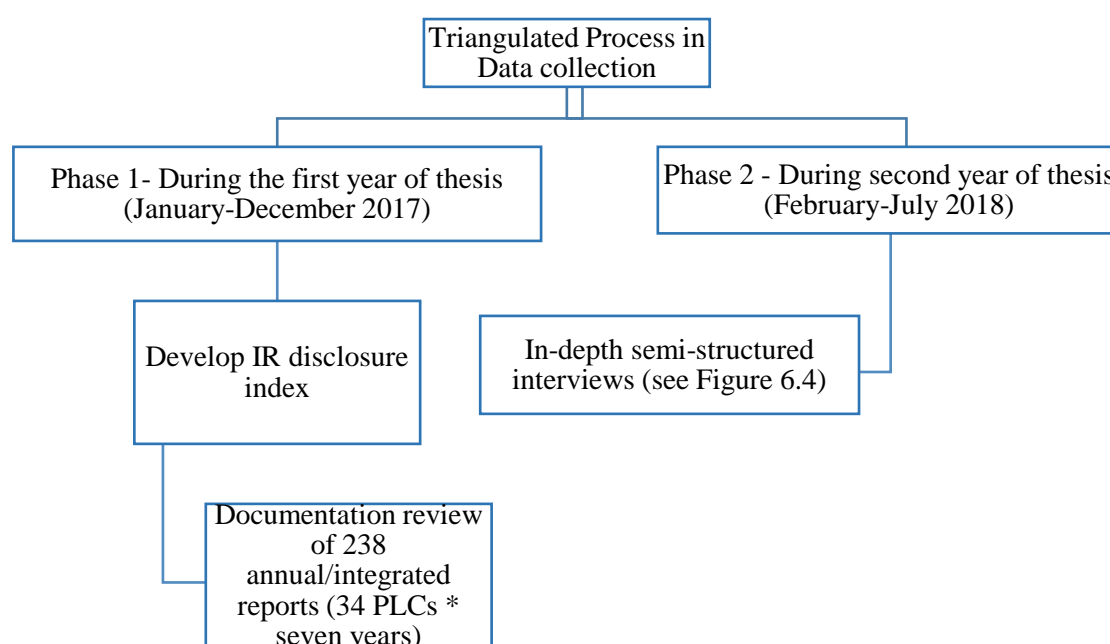


Figure 6.4: Triangulated data collection process of the present study (Source: Author)

### 6.7.1 Phase one – Documentation review

During the first phase, data were gathered through a documentation review of the case companies' annual reports for the seven-year period from 2010 to 2016, using the disclosure index prepared for the present study based on IIRC (2013b). Given the interest to explore the extent and nature of IR disclosures, the present study has not limited its analysis to any particular section of the reports, but examined the entirety of corporate reports of the 34 sample companies across the seven-year period from 2010 to 2016, examining 238 annual/integrated reports in total.

Companies may disclose integrated information through a number of organisational reporting channels, including annual reports, standalone sustainability reports, websites

and/or special reports (Haji & Hossain, 2016). The IIRC (2013, p. 8) explicitly states that an integrated report may be either a standalone report or be included as a distinguishable, prominent and accessible part of another report or communication. As stated in the previous section 'sample selection', this study has referred to all the types of corporate reports of each of the listed company in CSE as the sources of data, particularly the annual reports, integrated annual reports, sustainability reports, CSR reports, governance report and any other report that each company has made publicly available.

### **6.7.2 Phase two – Semi-structured interviews**

During the second phase of the data collection, interviews were carried out based on the semi-structured interview method.

In general, Zeff (2017) identified that although interviewing is seen much more in field studies in management accounting research, interviewing is an under-utilised research method in financial accounting literature. Zeff also stressed that interviewing is a way to create an own database for a researcher and assists the researcher in demonstrating causality of how a change has come about (Zeff, 2017). Therefore, in the context of IR, interviewing enables inferences about what the impact of IR is in organisations, why companies have adopted IR, who has played leadership roles in influencing the course of change through IR in organisational reporting practices, who has resisted change and why (if any), etc. In this sense, the interview method used in this present study also addresses one of the future research suggestions by Jensen and Berg (2012), that is, to use the primary data in order to consider the individual motives of IR. Doody and Noonan (2013) claimed that interviews are particularly useful in uncovering the story behind participants' experiences and researchers can follow a line of questions to gain information about a topic. Past studies provide evidence of three approaches in conducting in-depth interviews: structured, semi-structured and unstructured interviews (Collis & Hussey, 2009; Rubin & Rubin, 2011; Silverman, 2013). The present study used the semi-structured in-depth interviews based on the flexibility to pursue other topics that arise during the interview (Collis & Hussey, 2009) along with the list of interview questions the interviewer has, and the ability to develop follow-up questions during the interview (Collis & Hussey, 2009). Using the semi-structured interviews, the majority of the interviews were conducted as face-to-face interviews. Face-to-face interviews create a relaxed and friendly environment for the interview that stimulates interviewees to speak freely and openly about the topic

under investigation, and it enables respondents to provide responses in their own terms and in the way that they think and use language (Rubin & Rubin, 2011).

The interview guide was based on the research questions of this study (as in Chapter 1) which were derived to address the gaps identified in the existing literature (as in Chapter 3). A well-thought-out interview guide helps to build rapport with interviewees who feel comfortable opening up to the researcher (Braun & Clarke, 2013). In designing the interview guideline, interview questions probed into the areas such as interviewees' understanding of the IR concept; why their companies adopted IR; what made interviewees adopt IR; their perspectives on the difference of IR compared to traditional corporate reporting and sustainability reporting; their understanding of the key elements in the IR concept, like value creation, business model, multi-capitals, materiality, conciseness, stakeholder relations, strategy, and future oriented information, etc.; assurance of IR; challenges in the IR process; success factors and benefits gained through IR; and their views on mandatory and voluntary IR. The present researcher was mindful to make the list of questions in the interview guideline not too long. In order to assure validity of the interview questions, the interview guideline was discussed with the supervisory team. The interview guideline is given in Appendix 6B.

In the sample selection process, purposive sampling was considered as the primary sampling method. However, in some circumstances snowball sampling was also used in contacting the interviewees. Details of selecting the interview sample are discussed in the next section 6.7.2.1. While Maxwell (1998) defined purposive sampling as a type of sampling in which particular settings, persons, or events are deliberately selected for the important information they can provide that cannot be obtained as well from other choices, Bryman (2012) claimed that purposeful sampling is characteristic of interpretive research. Snowball sampling is defined as a technique for gathering research subjects through the identification of an initial subject who is used to provide the names of other actors (Lewis-Beck, Bryman, & Liao, 2004).

#### **6.7.2.1 Interview process**

This study has set the background for the interview process since March 2017. The opportunity to participate and present a research paper in the PMAA (Performance

Measurement Association Australasia) conference held in March 2017 and the informal meeting held with one of the departmental seminar presenters who represented the External Reporting Board (XRB New Zealand) in 2017 at University of Otago, facilitated building a network towards the potential interview sample. During PMAA in March 2017, the researcher was contacted by the Associate Technical Director-Management Accounting in Association of International Certified Professional Accountants (AICPA, CIMA, UK) based on the interest of the presentation made. She introduced the researcher (with email conversations) to the Manager Markets-Management Accounting in AICPA and CIMA Sri Lanka and then to the Technical Manager, CIMA Sri Lanka, requesting assistance in contacting the publicly listed companies (PLCs) in Sri Lanka. Then, in May 2017, the researcher had the opportunity to meet the Chief Executive, External Reporting Board New Zealand, at the Department of Accountancy and Finance, University of Otago. He introduced the researcher to the CEO of CA Sri Lanka and to the Chairman of IRC Sri Lanka. Through that network, the researcher was able to contact the two key personnel representing two PAOs, namely, CIMA Sri Lanka and CA Sri Lanka, and the key person in IRC Sri Lanka and was able to receive the contact details of the list of potential interviewees. In preparing the list of potential interviewees, the researcher was mindful to consider the chief financial officers who are responsible for the corporate reporting agenda in the Sri Lankan PLCs and also considered the contact person's details stated in the annual/integrated reports as the person who is in charge of any questions or inquiries regarding that particular annual/integrated report (purposive sampling). In this way, the researcher identified the relevant individuals who are likely be the sources of insights providers as interviewees with respect to the research context of IR. And that list of potential interviewees was re-checked with the information available at the above-mentioned two PAOs and IRC Sri Lanka. Afterwards, the researcher was introduced (through email and telephone conversations) to the interviewees of the interview sample by these two PAOs and IRC in Sri Lanka. Interviewer/the present researcher had the advantage of getting connected with the interviewees through whom they know and that led to building the trust between the interviewer and the interviewees.

Based on those contact details, each participant was sent an email explaining the researcher's motivation and what was expected to be covered during the interview. Although the full interview guideline was not sent to the interviewees, 'what is expected to be covered during the interviews' was been sent in the form of key questions based on

the interview guideline. Zeff (2017) identified that sending the required information to the interviewees in advance would make interviewees better prepared for the interview. Before conducting the interviews, the interviewer completed the homework or the groundwork as prerequisites for the interview process. For example, the interviewer completed the administrative process of the University of Otago for ethical considerations of research involving human participants. This ethical consideration was communicated through the email sent to each participant. Within that email, the anonymity and the confidentiality of the interviewees were assured by attaching the 'Information Sheet for Participants' (see Appendix 6D) and 'Consent Form for Participants' (see Appendix 6E). Interview appointment times were arranged and confirmed through email and telephone. Before each interview, the interviewer thoroughly prepared by studying all the relevant documentation (annual/integrated reports, sustainability and other reports published), revisiting the analysis of the application of the disclosure index to particular organisations represented by each participant), and searching for the company-specific IR information available on the web.

Notably, as shown in Figure 6.5, this study was able to carry out sixty-two (62) interviews based on a participant triangulation (see Table 6.2). Out of these 62 interviews, 60 interviews were conducted during the time from February to July in 2018 in Sri Lanka, while only 2 interviews (of two international academics) were conducted in July 2019 in Brisbane, Australia. Detailed information on the interviewees is given in Appendix 6C, including the business sector represented by the selected sample of companies or the relevant profession represented by the interviewees, number of companies/institutes interviewed, number of persons interviewed, designation of the person interviewed and the duration of each interview. The interviews conducted by the present study were not limited to the key decision makers across the organisations in the sample of 34 timely adopters of IR in Sri Lanka. The interview sample was broadened to include different perspectives from a variety of other parties (as shown in Figure 6.5, Table 6.2, and Appendix 6C) who play a vital role in the IR agenda. Flower (2015) emphasises that a larger sample size enriches the understanding of what IR and integrated thinking means in implementing IR's objectives to substantially improve mainstream reporting.

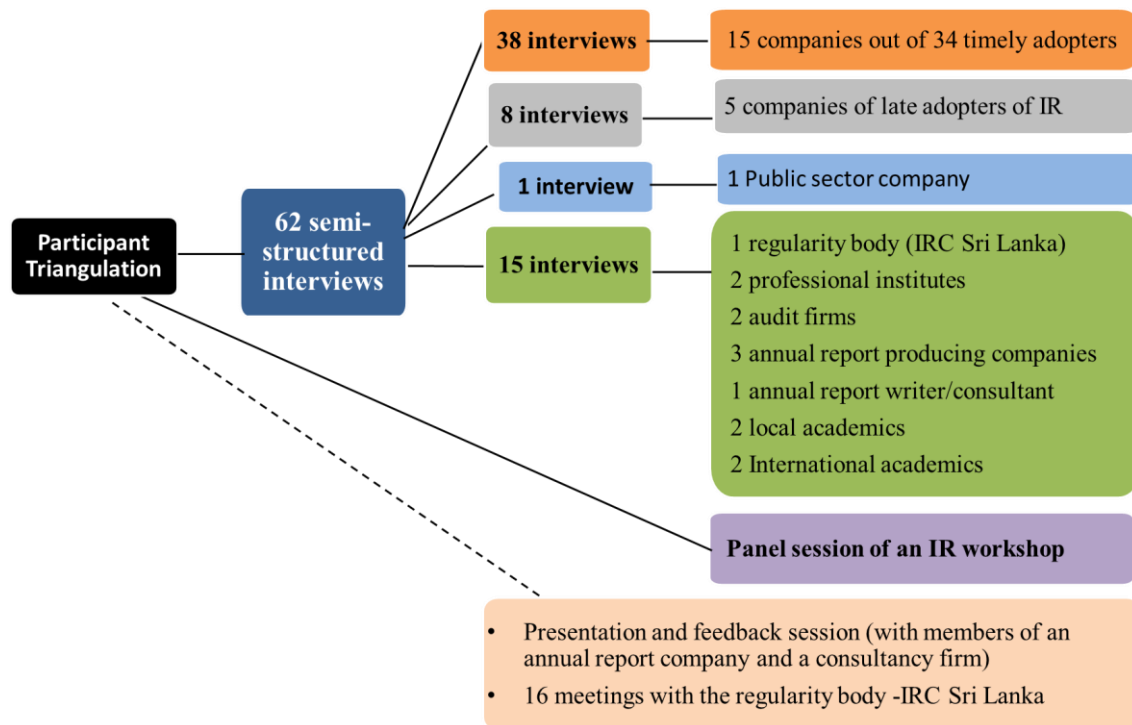


Figure 6.5: Interview sample of in-depth semi-structured interviews (Source: Author)

As shown in Figure 6.5, the majority of the interviews (38 interviews) were held with 15 companies selected (based on the different business sector) from the sample of 34 timely adopters of IR in Sri Lanka. These interviews were primarily held with the key strategic-level decision makers in order to obtain in-depth insights into IR practice and also some of these interviewees suggested some other key persons of their organisations to interview (snowball sampling). Designations of the 38 interviewees of the 15 companies of timely IR adopters are exhibited in Table 6.2. The total interviewing time for the 38 interviews was 1748 minutes (29 hours and 8 minutes). To ensure the credibility of the present study's evidence, respondents were selected because of their involvement in the implementation of IR (Argento et al., 2018). Despite these 38 interviews, the interview sample also includes eight (8) interviews with 05 late adopters (out of CSE listed companies which adopted IR after the establishment of the IR framework in December 2013, i.e. after the financial year of 2013/2014) with an interview time of 396 minutes (6 hours and 36 minutes). One interview was conducted contacting an IR-adopting state bank as a public sector company allocating an interview time of 91 minutes (1 hour and 31 minutes). Details are provided in Table 6.2. In spite of the above, this study also conducted fifteen (15) other interviews representing two (2) professional institutions (2 PAOs in Sri Lanka),

two (2) auditing companies, one (1) regulatory body, the IRC Sri Lanka, three (3) annual report producing companies, one (1) annual report writer in a consultancy company, two (2) local academics, and two (2) international academics (see Figure 6.5 and Table 6.2). The total duration of these 15 other interviews was 935 minutes (15 hours and 35 minutes). Despite the 62 semi-structured interviews, the study also utilised the content of a panel session of an IR workshop held during the data collection period (details are given in next sub section 6.7.2.1.1).

Table 6.2: Profile of interviewees

| No | Industry              | Company/<br>Institute<br>code | Interviewee's position                         | Interviewee<br>code |
|----|-----------------------|-------------------------------|--|---------------------|
| 1  | Bank 1/PPE            | B1                            | CFO  | B1-1                |
| 2  | Bank 1/PPE            | B1                            | Chief Manager - Finance                        | B1-2                |
| 3  | Bank 2                | B2                            | Senior Manager Finance                         | B2-1                |
| 4  | Insurance 1           | IN1                           | CFO  | IN1-1               |
| 5  | Insurance 1           | IN1                           | Senior Manager                                 | IN1-2               |
| 6  | Insurance 1           | IN1                           | Accountant 1                                   | IN1-3               |
| 7  | Insurance 1           | IN1                           | Accountant 2                                   | IN1-4               |
| 8  | Construction 1        | CN1                           | General Manager (GM)-Commercial                | CN1-1               |
| 9  | Construction 1        | CN1                           | Financial Accountant                           | CN1-2               |
| 10 | Diversified Holding 1 | DH1                           | Group CFO                                      | DH1-1               |
| 11 | Diversified Holding 1 | DH1                           | Head - Strategic Business Development          | DH1-2               |
| 12 | Diversified Holding 1 | DH1                           | Accountant                                     | DH1-3               |
| 13 | Diversified Holding 2 | DH2                           | Financial Controller /Assistant Vice President | DH2-1               |
| 14 | Diversified Holding 3 | DH3                           | Group CFO                                      | DH3-1               |
| 15 | Diversified Holding 3 | DH3                           | Chief Financial Accountant                     | DH3-2               |
| 16 | Diversified Holding 3 | DH3                           | Business Analyst                               | DH3-3               |
| 17 | Diversified Holding 3 | DH3                           | Former Group CFO/Consultant                    | DH3-4               |
| 18 | Healthcare 1          | HC1                           | Head of Finance and Corporate Planning         | HC1-1               |
| 19 | Hotel 1               | HT1                           | Finance Controller                             | HT1-1               |
| 20 | Hotel 1               | HT1                           | Chief Accountant                               | HT1-2               |
| 21 | Motor 1               | MT1                           | CFO  | MT1-1               |
| 22 | Motor 1               | MT1                           | Accountant 1                                   | MT1-2               |
| 23 | Motor 1               | MT1                           | Accountant 2                                   | MT1-3               |
| 24 | Plantation 1 and 2    | PL1&2                         | Managing Director                              | PL1&2-1             |
| 25 | Plantation 1          | PL1                           | GM Tea Marketing and Corporate Affairs         | PL1-1               |
| 26 | Plantation 2          | PL2                           | GM Finance                                     | PL2-1               |
| 27 | Plantation 1          | PL1                           | GM Tea Marketing and Corporate Affairs         | PL1-1               |
| 28 | Plantation 1          | PL1                           | GM Finance                                     | PL1-2               |
| 29 | Plantation 3          | PL3                           | CFO/DGM Finance                                | PL3-1               |
| 30 | Power 1               | PW1                           | CFO  | PW1-1               |
| 31 | Power 1               | PW1                           | Head of Finance                                | PW1-2               |
| 32 | Power 1               | PW1                           | Finance Manager                                | PW1-3               |
| 33 | Power 1               | PW1                           | Group Accountant                               | PW1-4               |
| 34 | Telecommunications 1  | TLC1                          | CFO  | TLC1-1              |
| 35 | Telecommunications 1  | TLC1                          | Deputy CFO                                     | TLC1-2              |

| No  | Industry                               | Company/<br>Institute<br>code | Interviewee's position   | Interviewee<br>code |
|---|--|-------------------------------|--|---------------------|
| 36  | Telecommunications 1                   | TLC1                          | GM Finance   | TLC1-3              |
| 37  | Telecommunications 1                   | TLC1                          | DGM - Accounting Systems                                       | TLC1-4              |
| 38  | Telecommunications 1                   | TLC1                          | Senior Assistant Manager-Corporate Communications              | TLC1-5              |
| 39  | Bank 3                                 | B3                            | Chief Financial Officer (CFO)                                  | B3-1                |
| 40  | Bank 3                                 | B3                            | DGM Finance  | B3-2                |
| 41  | Bank 3                                 | B3                            | Executive Officer- MIS and Sustainability Unit                 | B3-3                |
| 42  | Healthcare 2                           | HC2                           | CFO  | HC2-1               |
| 43  | Healthcare 2                           | HC2                           | Senior Manager - Finance                                       | HC2-2               |
| 44  | Hotel 2                                | HT2                           | Director Finance   | HT2-1               |
| 45  | Trading 1                              | TR1                           | Group CFO  | TR1-1               |
| 46  | Chemicals 1                            | CH1                           | Group Finance Director/Company Secretary                       | CH1-1               |
| 47  | State Bank 1                           | SB1                           | Deputy General Manager (DGM) Finance and Planning              | SB1-1               |
| 48  | Regulation                             | IRCSL                         | Chairman   | REG1-1              |
| 49  | Professional Accounting Organisation 1 | PAO1                          | Former president/ Partner                                      | PAO1-1              |
| 50  | Professional Accounting Organisation 1 | PAO1                          | CEO  | PAO1-2              |
| 51  | Professional Accounting Body 2         | PAB2                          | Senior Specialist, Technical Policy and Engagement             | PAB2-1              |
| 52  | Audit Firm 1                           | AU1                           | Manager-Transaction Advisory Services                          | AU1-1               |
| 53  | Audit Firm 2                           | AU2                           | Manager-Client Services  | AU2-1               |
| 54  | AR Writer 1                            | ARW 1                         | Director   | ARW1-1              |
| 55  | AR Producing Company 1                 | ARPC 1                        | Senior Executive   | ARPC1-1             |
| 56  | AR Producing Company 2                 | ARPC 2                        | CEO  | ARPC2-1             |
| 57  | AR Producing Company 2                 | ARPC 2                        | Executive  | ARPC2-2             |
| 58  | AR Producing Company 4                 | ARPC 3                        | Executive CEO  | ARPC3-1             |
| 59  | Academic/Sri Lanka                     | ACASL                         | Senior Lecture 1   | ACASL1              |
| 60  | Academic/Sri Lanka                     | ACASL                         | Senior Lecture 2   | ACASL2              |
| 61  | Academic/International                 | ACAI NT                       | Professor  | ACAI NT1            |
| 62  | Academic/International                 | ACAI NT                       | Professor  | ACAI NT2            |
| <b>Panel Session of IR Workshop with 6 Panellists</b> |  |                               |  |                     |
|   | IR Regulator/IRCSL                     | Moderator                     | Panel session of IR workshop, Participant REG1-1               |                     |
|   | Diversified Holding /DH2               | Panellist                     | Panel session of IR workshop, Participant DH2-1                |                     |
|   | Motor /MT1                             | Panellist                     | Panel session of IR workshop, Participant MT1-1                |                     |
|   | AR Writer /ARW1                        | Panellist                     | Panel session of IR workshop, Participant ARW1-1               |                     |
|   | ARPC1                                  | Panellist                     | Panel session of IR workshop, Participant ARPC1-1              |                     |
|   | Vice President PAO 1                   | Participant                   | Panel session of IR workshop, Audience Participant 1           |                     |
|   |  | Panellist                     | Panel Session of IR Workshop-Present Researcher as a Panellist |                     |

Overall, the total interview time of the 62 interviews was 3170 minutes (52 hours and 50 minutes). The duration of most of the interviews was between 1 and 2 hours and then nearly an hour. Although the requested time for each interview was at least an hour, because of the interest shown on the topic of IR, most of the interviewees willingly engaged more than an hour while sharing their ideas. Out of 62 interviews, one interview



was carried out by using Skype and two interviews were conducted in an international context (in Australia). All the other interviews were conducted in person at the respective participant's office premises in Sri Lanka. Except for two interviews, all the other interviews were digitally recorded with the interviewee's permission. With regard to the non-recorded interviews, the interviewer made notes while the discussion was going on. Before starting the interview, the 'Information Sheet for Participants' was given to the interviewee and the 'Consent Form for Participants' was obtained with the participant's signature. While 60 interviews were conducted in English, 2 interviews were conducted in the Sinhala Language and then translated using a professional translator. The interviewer was mindful to listen to the recording, re-read and improve that translated transcript in the context of IR. The interviewer assured the interviewees that the interviews are confidential, and that this research would not refer to them by their names without their written consent through the 'Consent Form for Participants'. The majority of the interviewees, especially the IR practitioners, requested sharing the present study's findings with them. Not long after the interviews, the researcher started preparing the written transcripts of the interviews conducted. Transcription of 62 interviews took a considerable amount of time in the research process. On average, each interview transcription took 5 to 6 hours. Transcribed documents were reviewed and re-checked with the recordings to ensure the accuracy of the transcription.

#### **6.7.2.1.1 Other IR-related research work engaged in during the data collection period**

During this interview process, the present research study was able to gain a high level of attention and interest from various parties, especially the governing body of IR in Sri Lanka, the Integrated Reporting Council, Sri Lanka (IRC Sri Lanka) and the companies which have adopted IR in Sri Lanka.

- As a result of such interest, the present researcher was invited to conduct a workshop on "Integrated Reporting in Sri Lanka: A Reality Check with IIRC's Guiding Principles" on 26th March 2018 at CA, Sri Lanka, and participated and contributed as a panellist in the 'Panel Discussion' following the workshop (panel session of the IR workshop was held for 58 minutes and it was considered as part of the 'other interviews' in this study). Participants for that workshop were members of the IRC Sri Lanka, members of CA Sri Lanka, University academic staff, representatives from listed companies of CSE Sri Lanka, consultants and

annual report resource companies in Sri Lanka, and students of CA Sri Lanka. Inputs from this panel session are included as qualitative data in this study.

- In the meantime, the researcher was invited by IRC Sri Lanka to participate in the meetings aimed at developing a publication called “Handbook on IR” with the Chairman of IRC Sri Lanka and the Manager-Legal and Public Information of CA SL, held at CA Sri Lanka. In so doing, the researcher participated and contributed to 16 such meetings during the period of February to July 2018. At this stage, that publication document was forwarded for the approval of the council members in CA Sri Lanka. One of the meeting’s minutes are attached in Appendix 6F as evidence. The total time spent in participation for these 16 meetings with IRC SL and CASL amounted to 1180 minutes (19 hours and 40 minutes).
- Based on the network built through the interview process, the researcher was invited for a few other presentation sessions on IR by a few IR practitioners and an IR consultancy firm of Sri Lanka. Accordingly, two presentations were done for the financial reporting preparing teams of two IR practitioners (for 120 minutes) and another presentation and feedback session (for 80 minutes) was held with the members of an annual report producing company, and members of an IR consultancy firm in which the one of the study’s interview participants was attached as an annual report writer.
- Further, the researcher was given membership of the Advisory Committee of IRC Sri Lanka (IRC SL) based on the contribution made to improve the awareness and development of IR in Sri Lanka.

Thus, the total time utilised by the present researcher in conducting the 62 semi-structured interviews, IR workshop and panel session, and other IR-related research work engaged in during the data collection period was 4608 minutes (76 hours and 48 minutes).

## **6.8 Content analysis**

Content analysis is used as the primary approach for analysing the data in the present study, similar to prior qualitative studies in the IR field which used documentation review-based content analysis (such as Adams et al., 2016; Chersan, 2015; Dumitru et al., 2013; Dumitru & Guse, 2016, 2017; Eccles & Serafeim, 2014; Haji & Hossain, 2016; Humphrey et al., 2014, 2017; Kurochkina, Shuvalova, & Novozhilova, 2017; Marx & Mohammadali-Haji, 2014; Pozzoli & Gesuele, 2016; Sofian & Dumitru, 2017; Stent & Dowler, 2015; Vitolla

et al., 2018; Vorster & Marais, 2014) and interview-based thematic content analysis (such as Abhayawansa et al., 2018; Argento et al., 2018; Atkins et al., 2015b; Atkins & Maroun, 2015; Beattie & Smith, 2013; Feng et al., 2017; Lai et al., 2017; Paolucci & Cerioni, 2017; Perego et al., 2016; Strong, 2015; Stubbs & Higgins, 2018; Stubbs et al., 2014) (see more in section 3.5.4 in Chapter 03).

Accordingly, this study has undertaken a two-stage content analysis in analysing the data gathered through the two phases in the data collection process. ***First stage of content analysis*** is used to analyse the data gathered based on the documentation review of the corporate reports of the 34 selected companies in the CSE. The contents of these reports were analysed for information relating to the individual disclosure index items based on the seven guiding principles and eight content elements of the IR framework. Content analysis involves classifying disclosures into categories of items that capture the essence of the concept(s) of interest, often using a predetermined disclosure index based on best practice guidelines (Krippendorff 2004). In the field of corporate reporting, particularly in IR, content analysis is commonly used is analysing the presence or absence of particular items of information and in examining trends and patterns (de Villiers et al. 2017b; Krippendorff 2004).

Similar to the present study, content analysis-based qualitative IR disclosure index studies were also found in Adams et al. (2016), Akhter and Ishihara (2018), Lipunga (2015), Marx and Mohammadali-Haji (2014), and Stent and Dowler (2015). Some quantitative IR disclosure index studies were also found using content analysis (see more in section 3.5.4 in Chapter 3). Setia et al. (2015) identified that content analysis involves classifying the information disclosed in a source document, such as an annual integrated report, into categories of items that capture the aspects of information that a researcher wants to analyse.

***Second stage of content analysis*** is used to analyse the interview data gathered during the second phase of the data collection of the present study. A thematic analysis (examples of previous IR studies as identified in the first paragraph of this section and as discussed in the Chapter 3, literature review as well) was undertaken in order to focus on key themes to gain an in-depth understanding of the disclosure of IR practices in the selected organisation. Such key themes focused on drivers or motives for the adoption of IR practice, development and the actual adoption of IR, IR disclosures in terms of IR

framework, benefits and challenges of the IR process of the selected organisations. Institutional theory provides the broader theoretical insights for this thematic content analysis, while providing the theoretical ground explaining how IR has been institutionalised in the selected companies in the IR sample. The steps followed in the thematic analysis in this study are described in the next section.

### **6.8.1 Coding and NVivo**

In analysing the qualitative data, the present study has also followed the typical steps discussed in previous qualitative data analysis research (Braun & Clarke, 2013; Daniel & Harland, 2017): organise data, read and understand data, develop codebook, code data, generate themes, develop relationship among themes, interpret theme. First, the present researcher completed the transcription of the 62 interviews and then several rounds of reading of the transcriptions were carried out in order for familiarisation and to take note of items which were of potential interest in the search for the codes.

A code is “a word or brief phrase that captures the essence of why a researcher think a particular bit of data may be useful” (Braun & Clarke, 2013, p.207). They identified two types of codes, namely, data-derived codes (open codes or semantic codes) which reflect the semantic content or the meaning identified within the data, and researcher-derived (latent codes or concept driven or priori codes) in which the researcher derives the codes that are emerging from the key research concept and the theory used in the study. The present study uses both types of codes, open codes, which were drawn based on the 62 interview transcript data, as well as priori codes, where the codes were created beforehand based on the key concepts of IR and the key facets of the institutional theory used in the study. Similar studies, for example, Feng et al. (2017) and Tweedie and Martinov-Bennie (2015) also used open-coding methods to initially identify the shared themes from the interviews. After deriving the codes out of all the interview transcriptions, key IR concepts as well as theory, the researcher was then able to develop a ‘code book’ consisting of all codes identified in the present study. Daniel and Harland (2017) identified this codebook as a dictionary of terms.

Based on the codes in the code book, the ‘coding’ then took place across the entire data set of all interview transcriptions. Coding is referred to as “identify, retrieve, and provide a label for chunks of the data that is potentially relevant for answering your research question” (Braun & Clarke, 2013, p.207). Once coded, the researcher needed to collate

data coded at each code separately. In order to collate the coded data, the present study used the NVivo application (version 12). All the interviews were imported to NVivo one by one and named in a uniform manner and then nodes were created digitalising the code book (here, in each interview, codes were assigned to each respondent). This assisted in identification of information in the interview transcripts, where the source document and the line numbers can be traced back to read the coding context, whenever needed.

Next, based on the codes in the code book and using the collated data, ‘themes’ were created. A theme has a central organising concept that can capture the commonalities of a number of codes, but will contain lots of different ideas or aspects related to the central organising concept and a theme represents some level of patterned response or meaning within the data set (Braun & Clarke, 2013, p.224). Braun and Clarke also mentioned overarching themes, which tend not to contain codes or data, but instead simply capture an idea encapsulated in a number of themes. The NVivo assisted as a place holder for the themes identified.

The developed themes were then reviewed and a thematic map was produced showing the relationship between codes and themes (Braun & Clarke, 2013, p.232), in order to produce the overall story related to the present study’s research questions. As a method of quality control, Braun and Clarke (2013) suggested reviewing and revising the identified themes to determine whether these themes fit well with the coded data and the data set collected in telling a story that rings true with the data, and not about telling the one true story about the data. As reviewing and revising steps, the present study went back to all the coded and collated data and read it to make sure that each theme fits in relation to these and a final re-read was done of the entire data set to ensure that the identified themes captured the meaning of the dataset in relation to the research questions of the study (Braun & Clarke, 2013).

Afterward, the developed themes were defined and named. According to Braun and Clarke (2013), theme definition refers to stating what is unique and specific about each theme, including the focus and boundaries of the themes. Finally, the defined themes were incorporated into the findings and discussion chapter of the present research narrating the themes and ideas using quotations in presenting the entire story of IR in Sri Lanka.

## 6.9 Selection of the period

Past IR researchers have emphasised the need of a longitudinal approach to analyse the adoption of IR (Doni et al., 2016; Frias-Aceituno et al., 2014; Setia et al., 2015; Stubbs & Higgins, 2014; Wild & van Staden, 2013; Zhou et al., 2016), while recommending and suggesting the longitudinal method of analysis in their future research implications as a way to avoid the limitations of analysis being restricted to one year. A longitudinal study would also recognise the differences and similarities of the disclosures across time (Disssanayake et al., 2016).

In other terms, the longitudinal analysis from the year 2010 to 2016 of this study leads to understanding the state of affairs in terms of the extent and nature of disclosure practices of integrated reporting in the selected organisations. Confirming this, Stubbs and Higgins (2014) found that longitudinal studies are well suited to explore changes in reporting mechanisms in response to integrated reporting.

Further, such longitudinal analysis also helps to draw out the changes of the corporate reporting disclosures before and after the incorporation of the IR framework in selected organisations. The second limitation pointed out by Setia et al. (2015) in their analysis of the extent and nature of capital disclosures of top 25 JSE listed companies based on the IR framework is that the change in the extent of disclosure of capitals during the period before (2009-2010) and after (2011-2012) the introduction of the requirement to issue an integrated report (i.e. they used the IIRC Discussion paper issued in 2011 in the absence of a regulation, such as the IR framework, during the time of their study) could be due to a general pattern of change in disclosure, which may have happened even in the absence of regulation. Thus, overcoming this limitation and also following the future research opportunities provided by Setia et al. (2015), the present research extends the period of investigation to include more years pre- and post-regulation (Havlova, 2015) to provide conclusive evidence of the impact of regulation (i.e. the IR framework) on the extent and nature of IR disclosures.

The selection of this longitudinal period from 2010 to 2016 is due to several reasons. First is the stated objectives of the study, which are to explore the extent and nature of IR disclosures in the selected organisations while exploring the changes in the corporate reporting practices of the selected organisations before and after the incorporation of the IR framework. Second, the development of IR as a concept started in South Africa, with

its King III (2009) in late 2009. Further, the formation of the Integrated Reporting Council, South Africa (IRC SA) and International IR Council (previously named as International IR Committee) took place in May and August 2010, respectively. And the first integrated annual report in Sri Lanka was published in 2011 by one of the early adopters of IR in Sri Lanka, which covers the financial year of 1<sup>st</sup> April 2010 to 21<sup>st</sup> March 2011. Therefore, as of 2010, it is expected that CSE listed companies in Sri Lanka had gained some basic level of understanding of fundamentals of IR concept and due to the fact that few companies had already started their IR journey in the financial year 2010/2011. Therefore, the present study analysis starts from 2010. In this way, the period of analysis of the present study covers the period during which the formal introduction of IR as well as formation of IIRC in 2010 took place. Third, the selection of the last year of analysis was limited by data availability through the published integrated annual reports, which is 2016, of publicly listed companies in Sri Lanka at the time of data collection. The longitudinal analysis of the sample companies' corporate reports of the present study also addresses the need of such analysis to substantiate the observations of analysis of IR practice beyond the developmental stage (Haji & Hossain, 2016).

#### **6.10 Integrated reporting disclosure index**

Given the first research question, the present study contributes to the existing IR literature by developing an extensive and systematic disclosure index based on the IR framework. In order to explore the extent and nature of IR disclosures, the developed IR disclosure index is applied in the selected organisations in Sri Lanka over a seven-year period.

Despite the existence of IR disclosure-based IR research in the literature (as discussed in section 3.6.3.3 in Chapter 3) and in accordance with the best knowledge of the present researcher, the proposed disclosure index provides the first initial evidence of a disclosure index, which has been developed based on the seven guiding principles and the eight content elements (including the three fundamental concepts of IR, as six capitals, business model or value creation model and value creation) of the IR framework (IIRC, 2013b) and being applied in 34 listed companies (timely adopters of IR) in a developing country context, which is in Sri Lanka.

With the proposed disclosure index, we attempt to overcome the limitations available in the few existing checklists. The novelty and usefulness of the proposed disclosure index in the present study are explained by a few factors. First, the rigorous process of developing

the disclosure index is explained. Second, the comprehensiveness and systematic focus of the present disclosure index is illustrated in Appendix 6G, emphasising the importance and need of developing disclosure index items based on the principle-based IR framework, as the only available guidance and regulation for IR. Grimaldi, Cricelli, and Rogo (2015) claimed that, comprehensive indexes represent useful instruments for comparative strategic analysis of the organisational performance, since an index monitored how it varies over time, thus allowing the detection of possible deficiencies and identifying ways in which they may be corrected through strategic interventions.

Comprehensive indexes represent useful instruments for comparative strategic analysis of organisational performance, since an index monitors how it varies over time, thus allowing the detection of possible deficiencies and identifying ways in which they may be corrected through strategic interventions (Grimaldi et al., 2015). Development of such a disclosure index provides guidelines for companies indicating the best procedure for producing integrated corporate information, which in turn helps to study the evolution of the contents in time as well as the progress on maturity of the principles, concepts, elements and practices among integrated reports (Barth et al., 2017). Adding more, Setia et al. (2015) identified that it is possible to assess and verify the adoption of IR over a time frame, using a disclosure index.

#### **6.10.1 Developing the integrated reporting disclosure index**

The rigorous process in creating the IR disclosure index was carried out in several stages. During the first stage, the researcher carefully and extensively consulted the existing literature on IR disclosure index-based studies (as explained in the last section of the literature review chapter) to make the disclosure index comprehensive.

Selecting and defining the individual items for the disclosure index was done in the second stage. The selection of individual items was extensively and primarily based on the IR framework issued by IIRC in December 2013. The individual index items themselves assure the theoretical validation of the constructed IR disclosure index, by being derived based on the IR framework. As the IR framework does not prescribe disclosure of specific indicators or individual matters, the researcher carefully read the definitions, explanations and narratives of the three main facets of IR, seven guiding principles, eight content elements, and the three fundamental concepts, in demarcating the boundaries of key such elements provided by the IR framework. The three fundamental concepts (six capitals,



value creation model or business model and value creation) are explained under one of the eight content elements, named ‘business model’ as described in the IR framework. Grimaldi et al. (2015) also asserted that in constructing an index, a number of indicators are identified to reveal particular dimensions. The level of interdependencies existing among IR elements was also taken into consideration in developing the individual disclosure items.

This outcome of the stage two resulted in a comprehensive and structured disclosure index comprising disclosure items in total (see Appendix 6G), including 44 guiding principle items and 116 content elements items. The total number of individual items in the IR disclosure index prepared by the present study is given in Table 6.3.

Table 6.3: Total number of individual index items

| Guiding principles of IR                  | Total number of individual index items | Content elements of IR                              | Total number of individual |
|---|--|---|----------------------------|
| 1. Strategic focus and future orientation | 7                                      | 1. Organisational overview and external environment | 21                         |
| 2. Connectivity of information            | 9                                      | 2. Governance                                       | 11                         |
| 3. Stakeholder responsiveness             | 7                                      | 3. Business model                                   | 58                         |
| 4. Materiality                            | 5                                      | 4. Risk and opportunities                           | 5                          |
| 5. Conciseness                            | 4                                      | 5. Strategy and resource                            | 8                          |
| 6. Reliability and completeness           | 7                                      | 6. Performance                                      | 6                          |
| 7. Consistency and comparability          | 5                                      | 7. Future outlook                                   | 4                          |
|   |  | 8. Basis of preparation                             | 3                          |
| Total number of items                     | 44                                     |   | 116                        |

During stage three, a weighting scale was designed in order to score the various items incorporated into the disclosure index developed in the present study and it is explained in the next section.

### 6.10.2 Weighted disclosure index

In the absence of theoretical guidance about how to weight each item in constructing an aggregate IR score (Liu et al., 2018), we designed a weighting scale to score the various items incorporated into the IR disclosure index in the third stage. Hassan (2012) identified that one of the key aspects of reporting index studies is that they attempt to examine both

the quantity and the quality of the disclosures. Given the research question of the study, which is to analyse the extent and nature of the IR disclosures in the selected organisation, our intention was not just to quantify the extent of IR disclosures, but to assess the quality of the IR disclosures as well. The underlying objective of IR is also to provide users with higher-quality information.

Thus, in exploring the extent and nature of the guiding principles, a weighted quality score of '0 to 3' was assigned to each of the 44 individual disclosure items. This follows from the fact that guiding principles underpin the preparation and presentation of an integrated report, informing the content of the report and how information is presented (IIRC, 2013b). The IR framework further claims that judgement needs to be exercised in applying the guiding principles to determine what information is reported, as well as how it is reported. Thus, a quality score of 0 to 3 was assigned based on how well the firm disclosed each item. The ultimate total score calculated for each of 44 index items is out of a maximum score of 142 (44 items\* maximum score value of 3). The item is given a score of '0' if the item does not reflect on the report. If the information disclosed in the report is general or not specific, the item is given a score of '1'. A score of '2' is assigned if a report provides detailed information. The item is given a score of '3', if the information is disclosed extensively using tables, figures, diagrams, examples, a separate section, etc. This information suggests that the firm is trying to communicate to readers with different approaches and presentation styles. The connectivity of information and the overall usefulness of an integrated report is enhanced when it is logically structured, well presented, and written in clear, understandable and jargon-free language (IIRC, 2013b). Previous IR literature also provided examples for such weighted index score studies, such as Frias-Aceituno, Rodriguez-Ariza, and Garcia-Sanchez (2013a), Frías-Aceituno et al. (2014), Haji and Anifowose (2017), and Ruiz-Lozano and Tirado-Valencia (2016). Table 6.4 shows an example for the range of score values assigned to describe one of the individual index items of the first guiding principle, strategic focus and future orientation.

The content elements are the categories of information required to be included in an integrated report, which are fundamentally linked to each other and are not mutually exclusive and will depend on the individual circumstances of the organisations (IIRC, 2013b). The analysis of the extent and nature of the disclosure of content elements in the published annual integrated reports was weighed using a binary scale (Adams et al., 2016; Hassan, 2012; Lipunga, 2015; Setia et al., 2015) that notes the presence or absence of each

of the 116 individual content element index items. A score of ‘0’ is assigned for non-existence or absence of a content elements index item and ‘1’ is assigned for the existence or presence of the content element index items in the annual report, resulting a maximum score value of 116 (116 items \* maximum score value of 1). Table 6.5 shows an example for the range of score values assigned to describe one of the content elements’ index item.

Table 6.4: An example for score values of one of the disclosure items in one of the Guiding Principles

| Item  | Score | Statement/Section of the annual report  | Annual report | Page number |
|---|-------|---|---------------|-------------|
| <b>GP 1-Strategic Focus and Future Orientation</b><br><br>1.1.Organisation expressly defined its value proposition in the short, medium and long term | 2     | Under the ‘Sustainability Report’ section, sustainable value creation is shown with economic, environmental and social performance  | 2010          | p.58-93     |
|   | 2     | Under ‘Management Report’ section, financial value creation and Delivering value to customers; employees; business partners; government, authorities and associations; community and environment is provided                                | 2011          | p.14-81     |
|   |       |   | 2012          | p.16-113    |
|   | 3     | ‘Management Report’ details how value is delivered to and delivered from the stakeholders in the context of the eight strategic imperatives. From 2013 onwards, Dima used diagrams, tables to elaborate each capital and its value creation | 2013          | p.22-51     |
|   | 3     | ‘Value Creation Report’ section offers a detailed analysis of how Dima use their capitals to create lasting value for all stakeholders  | 2014          | p.32-65     |
|   | 3     | ‘A Magnetic Idea’ and ‘An Engaging Discussion’ sections presented Dima’s value creation model, value creation process through Dima’s capitals and value creation activities and impacts   | 2015          | p.24-70     |
|   | 3     | ‘A Clear-Cut Delivery’ and ‘A Visible Operation’ sections a clear-cut delivery of value to their stakeholders through their value creation model, capitals, value creation activities and impacts   | 2016          | p.28-75     |
|   | 3     | ‘A Clear Line of Sight’ and ‘Top of the Line’ sections provide the same as above  | 2017          | p.30-111    |
|   | 3     | ‘Change is Progressive’ and ‘Change is Positive’ sections provide the same above  | 2018          | p.32-131    |
|   |       |   |               |             |

Table 6.5: An example for score values of one of the disclosure items in one of the Content Elements

| Item  | Score | Statement/Section of the annual report | Annual report                        | Page number   |
|---|-------|--|--------------------------------------|---|
| <b>CE 3-Business Model (BM)</b><br><br>3.1 Company reports a business model (BM)/value creation model (VCM) | 0     | BM is not available in annual reports  | 2010<br>2011<br>2012<br>2013         |   |
|   | 1     | A VCM is available in annual reports   | 2014<br>2015<br>2016<br>2017<br>2018 | p.32-33<br>p.24-25<br>p.28-29<br>p.30-31<br>p.32-33 |

### 6.10.3 Validity and reliability of the IR disclosure index

Reliability of the index was considered in stage four of the IR disclosure index preparation process. Despite the usefulness of the IR disclosure index, the present study acknowledges that the method for identifying potential index items and allocating different scores to each of the defined items remains inherently subjective and can be controversial (Grimaldi et al., 2015; Hassan, 2012; Ruiz-Lozano & Tirado-Valencia, 2016). A degree of judgment was necessarily applied in assigning particular values to the criteria (Dissanayake et al., 2016). Zhou et al. (2016) also suggested that the self-constructed coding framework makes future replication difficult and in addition, they further claimed that the principle-based nature of the coding framework itself brings a certain level of individual judgment to the coding process. As Zhou et al. (2016) suggested, the double independent coding process is expected to significantly alleviate this concern. In the method used by Setia et al. (2015), one researcher was to read the annual/integrated reports and record information related to each disclosure item on a coding sheet, giving a score of ‘1’ if the attribute is disclosed and a score of ‘0’ if the particular attribute is not disclosed. In their study, a second researcher independently confirmed the score of each company to assure the accuracy and reliability of the data collected.

Following a similar method, the present study also aimed at reducing the potential subjectivity during rigorous process of constructing this IR disclosure index. First, the present researcher completed the scoring of the corporate reports of one company out of the sample companies based on the IR disclosure index prepared. Then, the same corporate reports were given to another member, who studied in the same department and who has a fair knowledge of financial reporting, along with a new document of the developed IR

disclosure index and he was asked to score the individual index items based on the weighting scales decided in scoring such index items. Finally, to assure reliability of the IR disclosure index while controlling the level of subjectivity attached with the single coder analysis in understanding the content of the corporate reports, the present study carried out an inter-rater reliability test using the second coder analysis. It was found that the dual coder analysis resulted in a reliability of 76.7%, which is within the accepted range of reliability analysis, assuring the internal validity for the index items and scores used.

Despite this inter-coder reliability measure, the IR disclosure index can be validated through how realistic and how useful it is in real practice. Developing the IR disclosure index as well as applying that index on the sample of companies (34 companies) on a longitudinal time period (seven years) is considered as one of the key contributions of the present study. And that key contribution itself assures the external validity by enabling companies to understand and use this index as a point of reference in evaluating to what extent they have adopted the IR disclosures in their corporate reports based on the IR framework.

During the last stage of the index preparation, and as a further step to ensure reliability and validity, the developed disclosure index was sent to some professors and practitioners with expertise in the area of IR, in local and international contexts. Table 6.6 shows a summary of some of the comments received. Based on the comments and feedback of the professors, the disclosure index was modified and refined for the purpose of empirical analysis based on an analysis of the corporate reports of the selected organisations.

Table 6.6: Summary of some of the comments received for the IR disclosure index prepared

| Academic professors | Area of research and the country of the affiliated university/institute/company | Comment/feedback on the IR disclosure index   |
|---------------------|---|---|
| A                   | Auditing and financial reporting, IR<br>(New Zealand)                           | Commented on the importance of including some measures of the quality of the disclosures rather a standard index. Suggested that, based on the reading, index items could assign a score that reflects how well the firm met this objective. Also commented to consider the wide range of presentation styles in integrated reports in designing index items. |

| Academic professors | Area of research and the country of the affiliated university/institute/company | Comment/feedback on the IR disclosure index   |
|---------------------|---|---|
| B                   | Corporate governance<br>(Sri Lanka)   | Commented that he/she has gone through the items given under each category and they seems fine. Supported by sending few additional reading materials regarding the item weightings.  |
| C                   | Non-financial accounting (intellectual capital, CSR, IR)<br>(Australia)         | Commented good  |
| D                   | Auditing, governance and sustainability reporting<br>(Australia)                | Suggested to include Likert-scale style questions   |
| E                   | Financial reporting, CSR<br>(Sri Lanka)   | Commented as comprehensive checklist and almost all the areas have been covered. Suggested to take into consideration of the problems that arise in the operationalisation (assessing corporate reports) of the developed index. Also, suggested to follow the consistency in wording the disclosure items. |

These experts' comments and feedback and the inter-coder reliability used, together with the key contribution of the IR disclosure index, assure the internal and external validity of the study.

### 6.11 Rigour in research

This is about the quality of the qualitative research. As pointed out by Daniel and Harland (2017), trustworthiness, quality, and difficulty in assessing quality have been identified as issues in qualitative research. They further identified that a qualitative approach assigns inherent subjectivity to research and that subjectivity and natural bias are yet to be fully accepted in qualitative research, and also that research contributions should come from a creative and critical process that interrogates subjectivity.

In evaluating the quality of the qualitative research, the present study has used the "TACT" framework-Trustworthiness, Auditability, Credibility and Transferability by Daniel and Harland (2017).

### **6.11.1 Trustworthiness**

This is the level of trust that the researcher established on this study. Lincoln and Guba (1985) described four general types of trustworthiness in qualitative research: credibility, transferability, dependability, and confirmability. Similarly, Lietz, Langer, and Furman (2006) stated that trustworthiness entails dependability and conformability, eliminating possible biases.

According to Daniel and Harland (2017), trustworthiness requires establishing confidence in findings reported (for an example, what were the questions asked, who carried out the study, how was data analysed, how was coding, theming, theorising carried out, etc.) and verification of data with theory and with participants.

Through a clear articulation of the purpose of the research and the research problems (as discussed in Chapter 1), by following a sound research methodology (as discussed in the current Chapter 6, especially the trustworthiness of the sources of data) and verifying the collected data with theory and the interview participants (as discussed in Chapter 4-theory and Chapter 7 onwards- findings and discussion), the present researcher has been able to interpret the level of trustworthiness in producing the overall story of the present study. On the other hand, trustworthiness is reflected through the position of the researcher in the current research and the experience of the researcher (Daniel & Harland, 2017). In the present qualitative research, the present researcher has communicated, interpreted and interacted with the data belonging to the present study, while demonstrating the researcher's position in this whole research process, the researcher's experiences, and the relationship between the researcher and the collected data, showing the integrity of the data of the present study. Section 6.7.2.1 discussed the role and the experience of the present researcher during the interview process, conveying the level of trustworthiness of the present study.

### **6.11.2 Auditability**

Auditability refers to a systematic procedure for recording the process of data analysis (Daniel & Harland, 2017). As they further claimed, auditability requires a high degree of transference and is answered with the question, 'can someone follow how a researcher engages in the entire process?'

In the present study, auditability can be found in the rigorous research methodology followed by the present researcher. Here, the transparency in data collection (both in two methods, documentation review and interviews), the systematic analysis of the collected data using the content analysis and how the data have been verified, matter in assuring the auditability of the present study. The rigorous research methodology also provides evidence for the original work carried out during this whole research process while bearing the responsibility and the authority on the present research. Thus, enabling the reader to follow the present researcher with an audit trail of the present study.

### **6.11.3 Credibility**

According to Daniel and Harland (2017), credibility is establishing congruence of findings with assumptions, verifiable, and validated by theory. In these terms, the credibility links with trustworthiness. They have also claimed this as the internal validity which assesses the approximate truth of the conclusion of the research and as the ability to have confidence in the researcher and the research process. In order to assure credibility, the researcher needs to verify findings with literature, explore multiple ways of soliciting data and present key themes with participants (Daniel & Harland, 2017).

In the present qualitative research context, the systematic and comprehensive literature review (as discussed in Chapter 3), the triangulated data collection methods conducted in the two phases of the present study as a documentation review and an interview process (as discussed in the current chapter) and the presentation of the key findings or key themes identified during the interview process along with the theoretical base used assures the credibility in the present research.

As stated in section 6.7.2.1, the present researcher has also been able to contribute towards the practice through sharing the researchers' knowledge on the key research phenomenon, i.e. IR, with the research participants, such as IR practitioners and the governing body of IR in Sri Lanka. Further, as requested by the interview participants (IR practitioners), the researcher has already shared the application of the disclosure index with some of the IR practitioners and also intends to share the research findings (both in terms of application of the disclosure index and the thematic analysis of interviews) with the interview participants after the completion of the study. Supporting this fact, Creswell (2014) stated that, ideally, credibility requires that the final report or specific description or themes are taken back to the participants.



#### **6.11.4 Transferability**

Transferability is a key type of external validity achieved by describing a phenomenon in sufficient detail (Lincoln & Guba, 1985). In accordance with Daniel and Harland (2017), transferability is assessing the extent to which the outcomes of qualitative research can be transferred to other times, settings, situations, and people. They also stated that multiple realities needed to be acknowledged when addressing transferability. Because in qualitative research, there is no generalisability, but what matters is the transferability, while ensuring the need for the researcher to be in the research context.

In other words, this is the notion of the transfer of concepts that the researcher learnt in one context and whether that can be applied to another context, thus assessing the external validity of the qualitative research (Daniel & Harland, 2017). The present study has provided a detailed description of the study context (as discussed in Chapter 1, 2, 3 and 5), the methodologies and the time periods chosen (in the current chapter) and about the key research phenomenon, which is ‘how and why IR in Sri Lanka’ (as discussed in Chapter 7 onwards).

Transferability assesses the currency of the findings and its applicability (Daniel & Harland, 2017). The key contribution through the developed disclosure index and its application provides evidence for such timeliness and applicability of the present study.

#### **6.12 Chapter summary**

This chapter provided the study’s ontological and epistemological stances, interpretive research paradigm, and qualitative research approach underpinned by triangulated research methods in data collection (documentation review based on the IR disclosure index and in-depth interviews), data analysis using content analysis, and also addressed the concerns of assuring the quality of the qualitative research, thus providing rigour in the selected research methodology.

The next chapters (from Chapter 7 onwards) provide the reporting of research outcomes through the analysis, findings and discussion of data gathered through triangulated research methods during the two phases of the study.

## **Chapter 07**

### **Trends in IR adoption**

#### **7.1 Chapter introduction**

As described in Chapter 1, this study aims to answer four research questions. This chapter sets the ground for the other four chapters to present its findings. Beyond the qualitative data through interviews, the profile of the selected listed companies in Sri Lanka is interpreted through the report review using simple statistical methods in order to analyse the trends in corporate reporting over the study period, 2010 to 2016. The trends identified are highlighted over the early stage of the adoption (2010 to 2013), timely adoption (2014) and late adoption (2015 and 2016).

The sub-headings of this chapter are derived based on the essential themes and trends resulting from report characteristic analysis and thematic content analysis as well. Section 7.2 describes adoption of IR by the sample companies over seven years. Section 7.3 discusses how companies have identified their corporate reports on the front page. Adoption of IR based on the IR framework is discussed in section 7.4, where section 7.5 specifies the adoption of IR based on other frameworks. Sustainability reporting and GRI reporting of IR adopters are presented in section 7.6. Section 7.7 presents external assurance of financial and non-financial information of reviewed reports. While section 7.8 discusses the use of annual report producing companies, section 7.9 digs into the length of the reports reviewed. A discussion of the emergence of capital disclosures and value creation disclosures is provided in section 7.10 and 7.11, respectively. A chapter summary is given in section 7.12.

#### **7.2 Adoption of IR in Sri Lanka**

This section first investigates the trend of adoption of IR by the Sri Lankan listed companies, and based on this trend, the analysis is further expanded into several other areas which explain the sector-wise IR adoption.

The trend analysis below gives the overall picture as to how IR has been adopted by the Sri Lankan listed companies over the seven-year period from 2010 to 2016. The sample

selection process and how the data were collected is discussed in detail in section 6.6 in Chapter 6.

Table 7.1: IR adoption in Sri Lanka (SL)

| Sector                        | No. of listed companies adopted IR |      |      |      |      |      |      |
|-------------------------------|------------------------------------|------|------|------|------|------|------|
|                               | 2010                               | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Bank Finance and Insurance    |                                    | 1    | 2    | 8    | 17   | 22   | 25   |
| Beverage Food and Tobacco     |                                    |      |      |      |      | 2    | 5    |
| Chemicals and Pharmaceuticals |                                    |      |      |      |      | 1    | 1    |
| Construction and Engineering  |                                    |      |      | 1    | 2    | 2    | 2    |
| Diversified Holdings          |                                    |      | 2    | 3    | 5    | 5    | 5    |
| Footwear and Textiles         |                                    |      |      |      |      | 1    | 1    |
| Health Care                   |                                    |      |      |      | 1    | 1    | 2    |
| Hotels and Travels            |                                    |      | 1    | 1    | 2    | 4    | 4    |
| Manufacturing                 |                                    |      |      |      | 1    | 2    | 6    |
| Motors                        |                                    | 1    | 1    | 1    | 1    | 1    | 1    |
| Plantations                   |                                    |      |      | 2    | 3    | 3    | 4    |
| Power and Energy              |                                    |      |      |      | 1    | 1    | 3    |
| Services                      |                                    |      |      |      |      | 1    | 1    |
| Telecommunications            |                                    |      |      | 1    | 1    | 1    | 1    |
| Trading                       |                                    |      |      |      |      |      | 1    |
| Total IR adopted companies    | 0                                  | 2    | 6    | 17   | 34   | 47   | 62   |

As in Table 7.1, IR is well taken by SL, for example, in 2011, while only 2 companies had started to adopt IR, in the following year, the number of IR adopters rose to 6 and then to 17 by 2013. Then that number doubled to 34 in 2014 and then rose to 47 in 2015. In 2016, the number of IR adopters further proliferated to 62. Refer to Appendix 6A for the detailed analysis of the IR adopters. Interestingly, it is also noted that among the IR adopters, nearly or more than 50% of them were found in the ‘bank, finance an insurance’ sector, while the remaining represented 14 other sectors. Sector-wise IR adoption is discussed in the next section 7.2.1.

As discussed in research methodology, the study identifies the companies which started to follow IR during the period from 2010 to 2013 as “early adopters” (25 companies), companies which adopted IR in the year 2014 as “timely adopters” (34 companies) and companies which adopted IR from 2015 onwards as “late adopters” (109 companies). In another study in Sri Lanka, the primary stage lasted from 2010 to 2012, while the diffusion stage was identified as 2013 onwards (Gunarathne & Senaratne, 2017). Their study was up until 2014. As in Table 7.1, many early adopters of IR are from ‘bank, finance and

insurance', 'diversified holdings' and 'plantations' sectors, confirming the study results of Gunarathne and Senaratne (2017). These early adopters also identified as the "role models of IR" or as "leaders of IR" (Gunarathne & Senaratne, 2017; Rogers, 1995) in the present study. When identifying the early adopters of IR in the present study, it should also be noted that the official proclamation of the IIRF took place in December 2013, although several drafts of the framework have been issued since 2011.

The interviewee B1-1 of one of the early adopters in the banking industry stated:

*IR as I remember I prepared in 2011. First one and first in the banking sector and second in the country. [...] Yes after MT1. Actually, at that time IR framework was not there. At that time, even none of the Indian companies has done IR (Interviewee B1-1).*

One of the other early adopters in the insurance industry who embraced IR in 2012 held a similar view:

*We initially started with the draft version. Framework was not out that time. 2012 is the first report. Because there was no framework and it was just a draft paper that we were using and reading (Interviewee IN1-2)*

Being the first company to enter IR from the plantations sector, the PL1 shared the following:

*We have been doing new things right throughout. Even I think if you check the plantation companies, we stepped in first before anybody else stepped into IR. We are like trendsetters for other plantation companies to do something new that has also a motive to be in the best in the field or best in the trade (Interviewee PL1-1).*

Eccles and Serafeim (2011) provided the supporting facts for the above, claiming that these early adopters were most likely to be companies that already had sustainable strategies and so for them IR was the logical way to report on these strategies.

While the early adopters share their thoughts as above, it was interesting to see that the ARPCs (Annual Report Preparation Companies) in Sri Lanka also claimed as follows that they also played a role in this early adoption of IR in Sri Lanka:

*What you can do is, to see whether what I am saying is true, online, you can get hold of MT1 annual report for 2010. In September 2012 only IIRC came out with their first draft in framework. Two years before, we have done the integrated report for MT1. So that was our creation. We have structured it. We have written it (Interviewee ARPC1-1).*

According to institutional theory, described in section 4.4.1 in Chapter 4, the influence through these ARPCs towards the IR adoption by the Sri Lankan listed companies is identified as a normative coercion and it is discussed in the next chapter under section 8.2.3.3.

The trend analysis of IR adoption over the period is clearly shown in the following Figure 7.1. Despite the mismatch of the number of IR adopters in 2014, the present study's overall trend of IR adoption over time (from 2010 to 2016) has assented to Gunaratne and Senaratne (2017), who showed an increasing temporal diffusion of IR in Sri Lanka from 2010 to 2014.

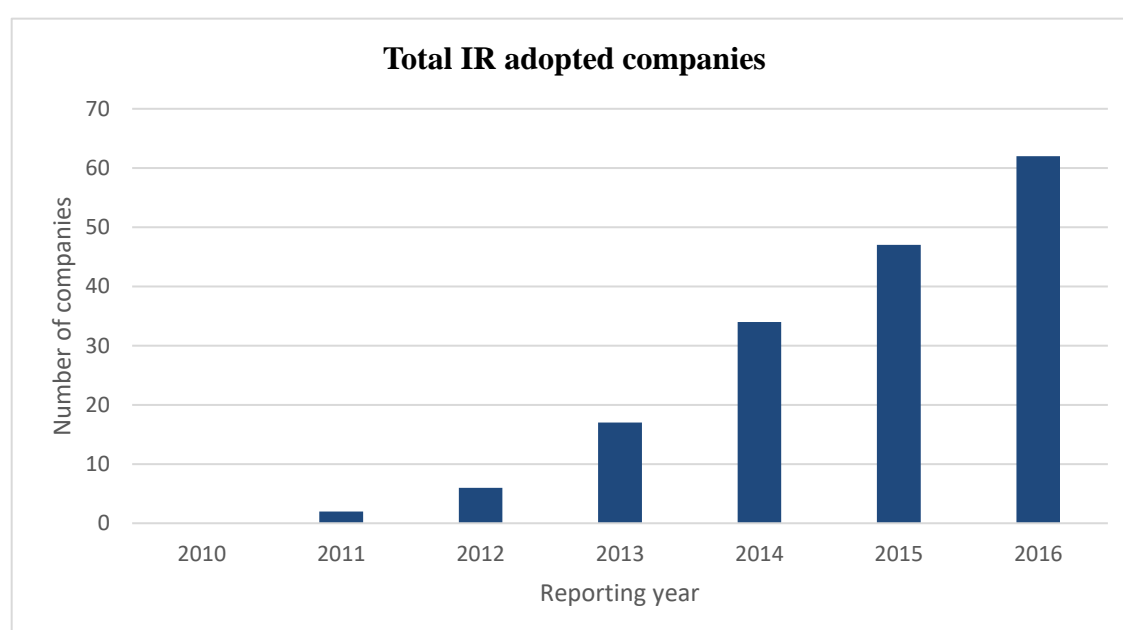


Figure 7.1: Trend of IR adoption in Sri Lanka (Source: Author)

Table 7.2 gives an understanding of the level of adoption of IR in each year out of the total number of listed companies in the particular year.

Table 7.2: IR adopters out of total listed companies

| No. of companies           | 2010              | 2011              | 2012              | 2013              | 2014              | 2015              | 2016 |
|----------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|------|
| Total CSE listed companies | 241 <sup>19</sup> | 272 <sup>19</sup> | 287 <sup>19</sup> | 289 <sup>19</sup> | 292 <sup>20</sup> | 296 <sup>21</sup> | 295  |
| Total IR adopters          | 0                 | 2                 | 6                 | 17                | 34                | 47                | 62   |
| % of adoption              | 0                 | 1                 | 2                 | 6                 | 12                | 16                | 21   |

<sup>19</sup> Dayaratne (2014)

<sup>20</sup> Gunaratne & Senaratne (2017)

<sup>21</sup> Piyananda & Fernando (2015)

As shown in Figure 7.2, the percentage of adoption level out of the total listed companies grew from 1% in 2011 to 21% in 2016 over five years. In 2011, only 2 out of 272 listed companies adopted IR (1%) and gradually the percentage of adoption increased to 2% in 2012 and then 6% in 2013. The percentage of adoption increased two-fold from 2013 to 12% in 2014 with the 34 timely adopters of IR out of 292 listed companies. Out of 296 listed companies, only 47 companies adopted IR in 2015 with a 16% of adoption level, in 2016, it moved up to 62 out of 295 listed companies with a 21% of level of adoption. Although the overall level of adoption shows an increasing trend as shown in the line graph in Figure 7.2, the total adoption in 2016 was even less than a quarter (only 21%) of the total listed companies in CSE.

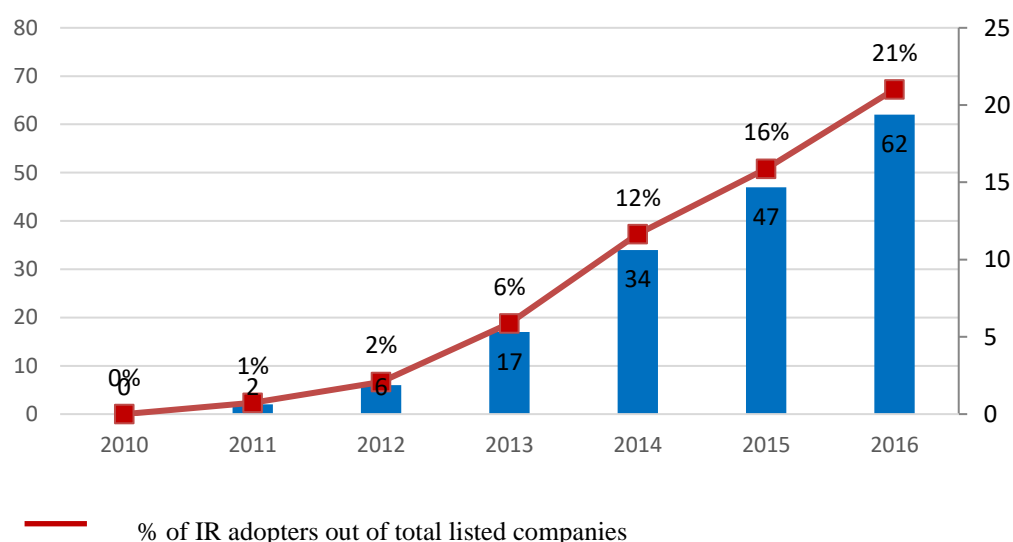


Figure 7.2: Level of adoption of IR out of total listed companies (Source: Author)

### 7.2.1 Sector-wise IR adoption

Further, Table 7.3 and Figure 7.3 show further evidence for how IR has grown sector-wise as well (refer to Appendix 6A for the CSE sector illustration).

Table 7.3: Sectoral adoption of IR

| Sector                        | 2011 | 2012 | 2013 | 2014 | Total reg. co. 2014 <sup>22</sup> | Adopter (%) in 2014 <sup>4</sup> | 2015 | 2016 | Total reg. co. 2016 | 2016 Adopter (%) |
|-------------------------------|------|------|------|------|-----------------------------------|----------------------------------|------|------|---------------------|------------------|
| Bank, Finance and Insurance   | 1    | 2    | 8    | 17   | 61                                | 28                               | 22   | 25   | 62                  | 40               |
| Beverage Food and Tobacco     |      |      |      |      |                                   |                                  | 2    | 5    | 21                  | 24               |
| Chemicals and Pharmaceuticals |      |      |      |      |                                   |                                  | 1    | 1    | 10                  | 10               |
| Construction and Engineering  |      |      | 1    | 2    | 4                                 | 50                               | 2    | 2    | 4                   | 50               |
| Diversified Holdings          |      | 2    | 3    | 5    | 19                                | 26                               | 5    | 5    | 19                  | 26               |
| Footwear and Textiles         |      |      |      |      |                                   |                                  | 1    | 1    | 2                   | 50               |
| Health Care                   |      |      |      | 1    | 6                                 | 17                               | 1    | 2    | 6                   | 33               |
| Hotels and Travels            |      | 1    | 1    | 2    | 39                                | 5                                | 4    | 4    | 39                  | 10               |
| Manufacturing                 |      |      |      | 1    | 37                                | 3                                | 2    | 6    | 38                  | 16               |
| Motors                        | 1    | 1    | 1    | 1    | 6                                 | 17                               | 1    | 1    | 6                   | 17               |
| Plantations                   |      |      | 2    | 3    | 19                                | 16                               | 3    | 4    | 20                  | 20               |
| Power and Energy              |      |      |      | 1    | 8                                 | 13                               | 1    | 3    | 8                   | 38               |
| Services                      |      |      |      |      |                                   |                                  | 1    | 1    | 8                   | 13               |
| Telecommunications            |      |      | 1    | 1    | 2                                 | 50                               | 1    | 1    | 2                   | 50               |
| Trading                       |      |      |      |      |                                   |                                  |      | 1    | 9                   | 11               |
| Other                         |      |      |      |      | 91                                |                                  |      |      | 41                  |                  |
| Total                         | 2    | 6    | 17   | 34   | 292                               |                                  | 47   | 62   | 295                 |                  |

In 2011, there were only two IR adopters representing two sectors, ‘Bank, finance and insurance’ and ‘Motor’, and in the next year, the number increased to 6, including the 2011 two adopters joining together with one more from ‘Bank, finance and insurance’, two from ‘Diversified holdings’ and one from ‘Hotels and travels’ sectors. In 2013, 6 more from ‘Bank, finance and insurance’ sector and one more from ‘Diversified Holdings’ sector, 2 from ‘Plantations’, and one from ‘Construction and engineering’ and

<sup>22</sup> The total registered companies and the percentage out of total registered companies were based on Gunarathne & Senaratne (2017)

‘Telecommunications’ joined with 2012 IR adopters. By 2014, IR had gradually dispersed into 10 sectors as shown in Table 7.3 and Figure 7.4.

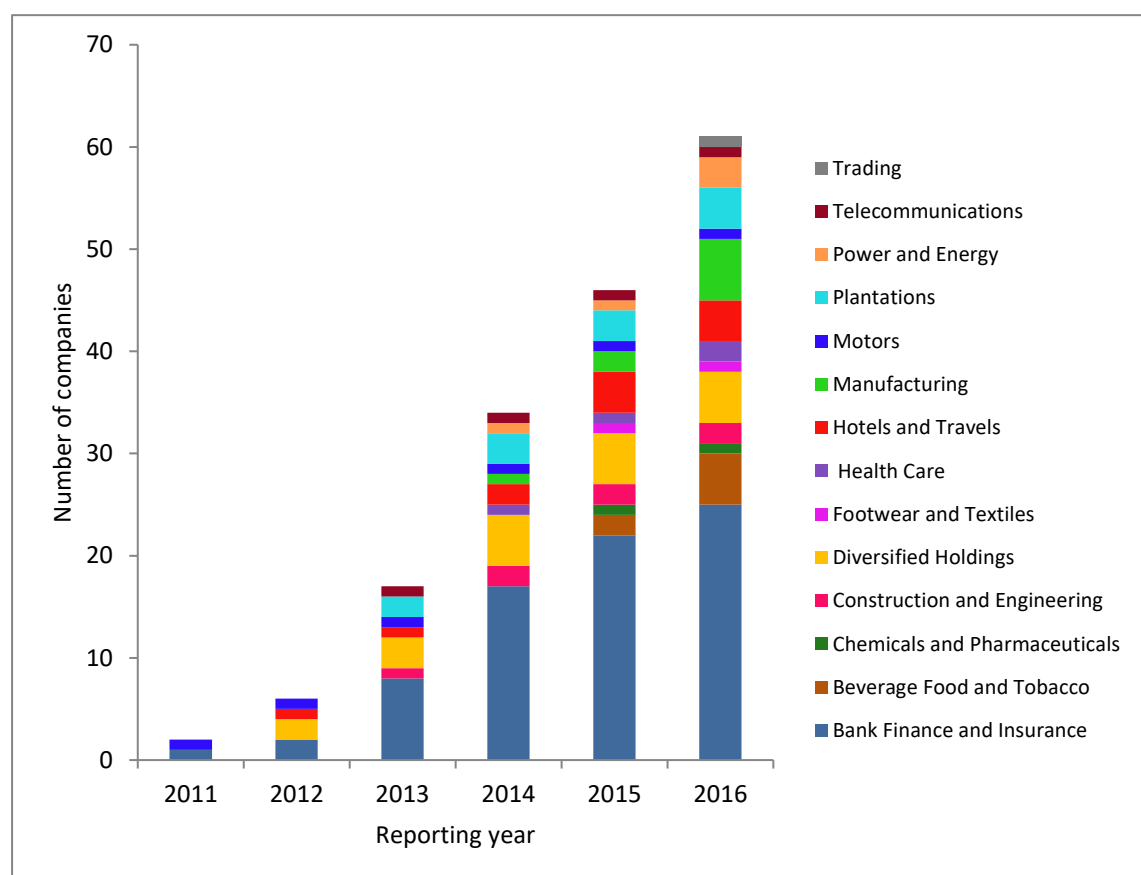


Figure 7.3: Sectoral adoption of IR across 2011 to 2016 (Source: Author)

Confirming this, the respondent from the IRC SL shared that:

*If you compare with the companies, we find that majority are in financial services. In stock exchange you get sector groupings. Financial services, manufacturing, in those we can say where are the majority coming from. So bigger % are from here in financial services (Interviewee REG1-1).*



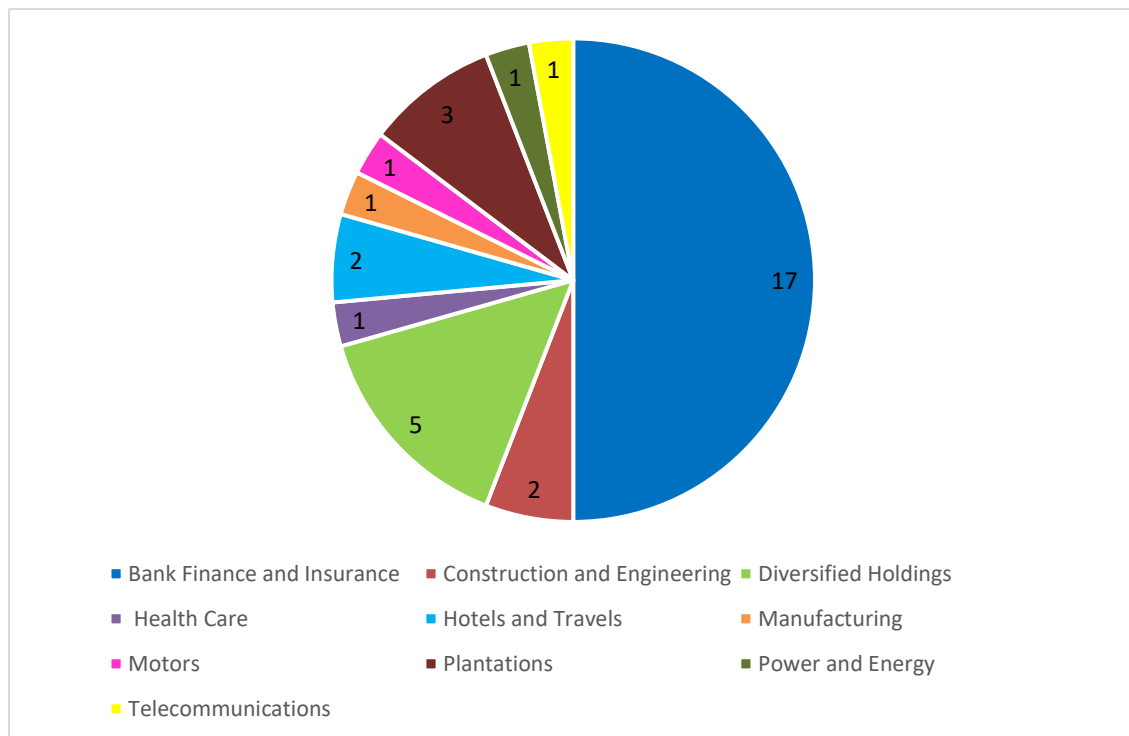


Figure 7.4: Sectoral analysis of IR timely adopters in 2014 (Source: Author)

For an example, in 2014, out of 34 timely adopters, the majority or half of the IR adopters (17) were found in the ‘Bank, finance and insurance’ sector, while 5 companies in ‘Diversified holdings’, 3 from ‘Plantations’, 2 each from ‘Construction and engineering’ and ‘Hotels and travels’ and, one company representing ‘Healthcare’, ‘Manufacturing’, ‘Motor’, ‘Power and energy’ and ‘Telecommunications’ sectors were also identified. The sector analysis of the present study sample of 34 timely IR adopters is shown in Figure 7.4. It was further revealed that by 2016, there were 62 IR adopters diffused across 15 sectors out of the 20 business sectors listed on CSE.

With respect to 2014 and 2016 data, Table 7.3 also denotes the level of adoption of IR in each of the respective sectors as a percentage of the total listed companies in those sectors. For example, in 2014, the ‘Bank, finance and insurance’ sector as the sector with the highest number of IR adopters, signifies a 28% of level of adoption out of the 61 companies listed in that sector. In 2016, the same increased to a 40% adoption level out of 62 registered companies.

In 2014, the ‘Diversified holdings’ sector identified a 26% level of adoption out of the 19 listed companies in that sector and remained at the same level of adoption in 2016 as well. A 50% of adoption level was found out of the listed companies in ‘Construction and engineering’ and ‘Telecommunications’ sectors in 2014 and 2016. Further, 2 out of 6 listed

health care companies and 3 out of 9 listed power and energy companies showed a 33% level of adoption in 2016. The 'Beverage, food and tobacco' sector indicated a 24% adoption level out of 21 companies listed in that sector in 2016.

Overall, in terms of the sector analysis all throughout the seven-year period, this study found that the majority of the companies are from the 'Bank, finance and insurance' sector followed by other sectors as shown in Table 7.3 and Figure 7.3, providing the conclusive idea that IR adopters among the Sri Lankan listed companies are widespread in different sectors. Similar results were found in Wild and van Staden (2013) in terms of the industry analysis, in which the 'Financial services' sector represented the majority of the companies who prepared integrated reports and are listed in the examples database in IIRC. They also claimed that the majority are not dominated by high environmental impact industries while drawing out the idea that this is quite different from what is observed in the literature, where companies with a high environmental and social impact tend to report more on non-financial or social and environmental reporting.

The interviewee from the regulatory body for IR in Sri Lanka also shared a similar view to the above.

*If you compare with the framework, we find that majority are in financial services. In stock exchange, you get those different groupings [...] in those we can say where the majority are coming from. So bigger percentage is from here (REG1-1).*

Despite all, the same interviewee was uncertain about the way the Sri Lankan companies encompassed IR even before the establishment of the IIRF.

*Really? Then how did then they say like that? But in 2011 also they say this is an integrated report before the IIRC publication, is it? So that mean their report may be published late. Because before the framework came, they would have not known about IR at that time. Who had prepared that for them? Because there are some who do this, I don't want to mention the names of that companies, I'll not call them advertising companies, these annual report companies who were in to IR without calling it IR or maybe they call it IR before the framework. They said they were focusing on non-financial information. So, that is what I think that they were doing. It happened in the same term but differently (Interviewee IRC SL1-1).*

This opens the discussion to investigate how the integrated report preparers in Sri Lanka identified their annual reports and to explore the basis for their adoption.

### 7.3 Annual report identification

The following two tables (Tables 7.4 and 7.5) show how timely adopters of IR named their annual report (AR) on the front cover. Table 7.4 shows that none of the companies named their annual report as an “integrated report (INR)”. The majority (94%) of the corporate reports reviewed named their reports only as an “annual report (AR)”.

During the interview, this fact was supported with the auditor’s statement:

*Most of our clients are writing it as our integrated report and so on inside the report. Inside they do mention, but in the cover, I do not think so. None of our clients write actually as integrated report. They state it as annual report (AU1-1).*

Thus, only 6% of the reports reviewed were named as an “integrated annual report (INAR)”. See Figure 7.5 also. Conversely, in Clayton, Rogerson, and Rampedi (2015), reports entitled ‘integrated report/INR’ were published for the first time in 2010 and after the adoption of King Code III in 2011, the majority of the reports were either entitled ‘INR’ or ‘INR and sustainability report’, while in the present study sample neither did not find any report entitled as ‘INR’ nor ‘INR and sustainability report’.

Table 7.4: Report identification in the front cover

| Report name           | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Total | %     |
|-----------------------|------|------|------|------|------|------|------|-------|-------|
| AR only               | 34   | 34   | 34   | 32   | 29   | 30   | 31   | 224   | 94.1  |
| INR only              | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0     | 0.0   |
| INAR Only             | 0    | 0    | 0    | 2    | 5    | 4    | 3    | 14    | 5.9   |
| Total timely adopters | 34   | 34   | 34   | 34   | 34   | 34   | 34   | 238   | 100.0 |

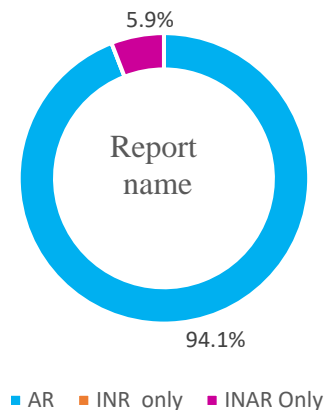


Figure 7.5: Report identification in the front cover (Source: Author)

The following two illustrations in Figure 7.6 provide examples of how two companies identified their reports only as an INAR and how another named the report as INAR and AR. It was further identified that the financial year-end of these two companies is 31 December. It is unlikely that the pronouncement of the IR framework in December 2013 made any impact on these companies' preparation of annual reports based on that framework.



Source: PL1, AR of 2013, front cover

Source: PL2, AR of 2013, front cover

Figure 7.6: Illustrations based on front covers of two plantation companies

As in Table 7.5, the 14 'INAR only' reports were identified out 22 total reports which were named as INAR, while the rest of the reports (8) were identified as using both terms, INAR and AR, on the front cover.

The trend of using the term “integrated” on the front cover took place in 2013. It was also interesting to compare the present study results with Clayton et al.'s (2015) findings in the South African context for 2013, where they have found only two companies did not include the word “integrated” in the title, while the present study found only three companies entitling their reports with the word “integrated” in 2013. As shown in Table 7.5, in 2013, one named their report on the front cover as an INAR and AR as well, and 2 titled their reports only as INAR, bringing the total number of companies who named their report as INARs to 3.

Table 7.5: Reports named as INAR

| Report name | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Total |
|-------------|------|------|------|------|------|------|------|-------|
| INAR +AR    | 0    | 0    | 0    | 1    | 4    | 2    | 1    | 8     |
| INAR Only   | 0    | 0    | 0    | 2    | 5    | 4    | 3    | 14    |
| Total INAR  | 0    | 0    | 0    | 3    | 9    | 6    | 4    | 22    |

Though the number increased in 2014, the trend of naming the annual report using the term “integrated” reduced from 2015 onwards (Table 7.5). Related results were also found in Clayton et al. (2015), during their study period from 2008 to 2013, following an increasing trend from 2008 to 2012 in the number of reports titled with the word “integrated”, the number reduced in 2013.

The next subsection describes the sample analysis of the followers of the International Integrated Reporting Framework (IIRF or IR framework) by the IR adopters who are listed in the CSE over the seven-year period. This was carried out by finding the companies who stated that their annual reports were prepared according to the IR framework across 2010 to 2016.

#### 7.4 Adoption of the IIRF

Figure 7.7 depicts the trend of the number of adopters of IR and the number of companies which followed the IIRF through the period 2010 to 2016 in Sri Lanka. In December 2013, the IIRC proclaimed the IIRF as a means to assist the companies in preparing their integrated reports.

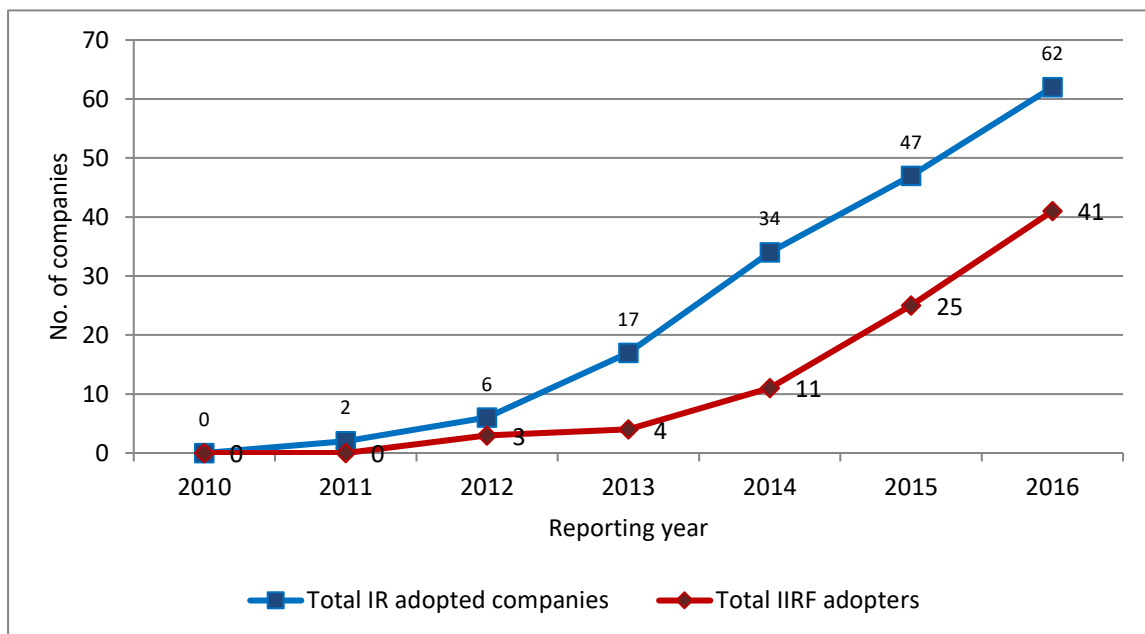


Figure 7.7: Adoption of IR and IIRF by Sri Lankan listed companies (Source: Author)

The lower trend line denoted in red colour (Figure 7.7) was backed by one of the panel members in the IR workshop conducted in 2018, when this figure was presented during the workshop. He stated that:

*In DH2 as she discussed about something in blue colour statistics and red colour statistics something that we all have not very well aligned with IIRC (Panel session of IR workshop, participant DH2-1).*

In one of the workshops conducted by CASL and IRC SL in 2019, the Chairman of the IRC SL also shared the following view relating to the statistics on the steady growth of IR adopters in the country:

In 2014, we saw about 20 companies adopting the integrated reporting framework, however this number increased more than 50 companies by 2018 (CASL, 2019).

Figure 7.8 also shows the total number of adopters and non-adopters of IIRF among the total number of companies who embraced IR over the seven-year period together with the percentage of IIRF adoption out of the total number of companies who prepared integrated reports. Non-adopters of IIRF are the ones who adopted SMART IR, SMART IR together with IIRF and those who did not state having any IR framework in their integrated annual reports (this is further explained in sections 7.5.1 and 7.5.2).

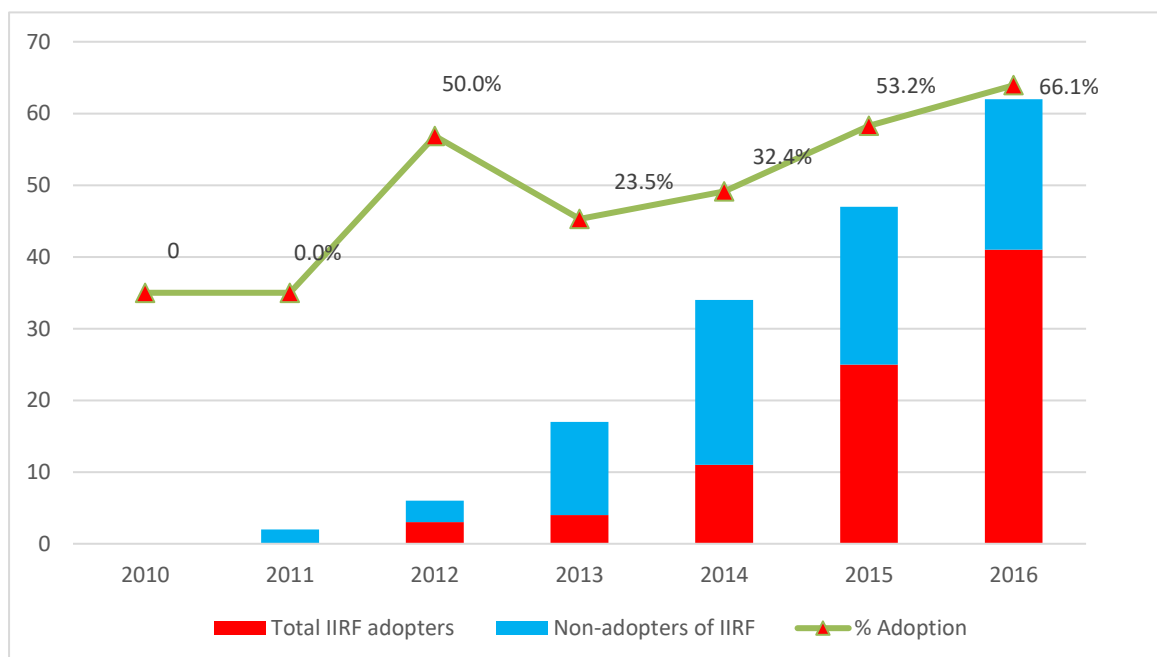


Figure 7.8: Total number of adopters and non-adopters of IIRF and % of adoption (Source: Author)

In 2011, the two early IR adopters were B1 in the ‘Banking’ sector and MT1 in ‘Motor’ sector. However, neither stated having IIRF in their annual reports in 2011 and their base of adoption is further discussed in section 7.5.

Compared to 2011, three companies out of six IR adopters used the IIRF in preparing their integrated reports in 2012. These findings open up the discussion to an interesting and substantial direction, where it is noted that these companies mentioned the IIRF even before its official pronouncement in December 2013. The two companies which adopted IR in 2011, together with another company from the ‘Bank, finance and insurance’ sector (IN1), stated that they used the “Prototype IR framework” issued by IIRC. The following Table 7.6 provides the evidence for the above.

Table 7.6: Companies which used “Prototype IR framework” in 2012

| Company | Extraction  | Source/Annual report                               |
|---------|---|--|
| B1      | “the prototype framework for integrated reporting released by the International Integrated Reporting Council (IIRC)”  | 2012, p.2 (Reporting period and framework section) |
| IN1     | “As guidance, we have also used the prototype framework released by the International Integrated Reporting Council (IIRC)”  | 2012, p.5 (Guiding frameworks section)             |
| MT1     | “Dimo, along with 65 global organisations, is presently participating in a Pilot Programme of the International Integrated Reporting Committee (IIRC) that will facilitate in the development of an International Integrated Reporting Framework” | 2012, p.5  |

The interview details from the respective companies confirmed the above as follows:

*At that time international integrated reporting guideline was not there (B1-1).*

*We initially started with the draft version of framework was not out that time (IN1-2).*

As in Figure 7.7, not surprisingly in the year 2013, along with the establishment of the IIRF, 4 companies (B5, B9, IN1 and PL1) out of 17 adopters (23.5%) stated that they prepared their annual/integrated annual reports based on the IIRF issued by IIRC. But, except for IN1, others mentioned IIRF together with another IR framework used in Sri

Lanka, called SMART IR (further discussed in section 7.5.1). For example, the following provides an example with an extraction how IN1 reported on their use of IIRF in 2013.

#### Guiding Frameworks

Being our second integrated annual report, this has been prepared in line with the Integrated Reporting Framework released by the Integrated Reporting Council in December 2013.

Figure 7.9: Illustration-declaration of the use of IIRF (Source: IN1 2013 AR, p.7)

That increasing trend continued to grow in 2014 to 11 adopters of IIRF out of 34 IR adopters (32.4%). By 2015, more than half (25 out of 47) of the IR adopters followed IIRF (with a 53.2%), and it further rocketed to 66% with 41 followers of IIRF out of 62 adopters in 2016.

All together, we can see that the level of IR adoption and the level of IIRF adoption have gained momentum over the seven-year period by the Sri Lankan listed companies.

## 7.5 Basis for IR adoption

Despite the IIRF, during the analysis of the Sri Lankan listed companies, it was also found that (Table 7.7 and Figure 7.10) some of the IR adopters prepared their integrated reports based on another framework called SMART IR. It is also interesting to note that some other companies adopted IR, but with no clue of any IR framework.

Table 7.7: Basis for IR adoption by IR adopters

| Base for IR            |                         | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|------------------------|-------------------------|------|------|------|------|------|------|------|
| IIRF                   | Early & Timely adopters | 0    | 0    | 2    | 4    | 11   | 18   | 23   |
|                        | 2015 adopters           | 0    | 0    | 1    | 0    | 0    | 7    | 8    |
|                        | 2016 adopters           | 0    | 0    | 0    | 0    | 0    | 0    | 10   |
|                        |                         | 0    | 0    | 3    | 4    | 11   | 25   | 41   |
| SMART IR <sup>23</sup> | Early & Timely adopters | 0    | 0    | 0    | 1    | 1    | 2    | 1    |
|                        | 2015 adopters           | 0    | 0    | 0    | 0    | 0    | 0    | 0    |
|                        | 2016 adopters           | 0    | 0    | 0    | 0    | 0    | 0    | 0    |
|                        |                         | 0    | 0    | 0    | 1    | 1    | 2    | 1    |
| SMART IR & IIRF        | Early & Timely adopters | 0    | 0    | 0    | 3    | 10   | 7    | 6    |
|                        | 2015 adopters           | 0    | 0    | 0    | 0    | 0    | 0    | 0    |
|                        | 2016 adopters           | 0    | 0    | 0    | 0    | 0    | 0    | 0    |
|                        |                         | 0    | 0    | 0    | 3    | 10   | 7    | 6    |
| No IR framework        | Early & Timely adopters | 0    | 1    | 3    | 9    | 12   | 7    | 3    |
|                        | 2015 adopters           | 0    | 1    | 0    | 0    | 0    | 6    | 5    |
|                        | 2016 adopters           | 0    | 0    | 0    | 0    | 0    | 0    | 6    |
|                        |                         | 0    | 2    | 3    | 9    | 12   | 13   | 14   |
| Total IR adopters      |                         | 0    | 2    | 6    | 17   | 34   | 47   | 62   |

<sup>23</sup> The Smart Integrated Reporting Methodology (SMART IR) (This is explained in section 7.5.1)



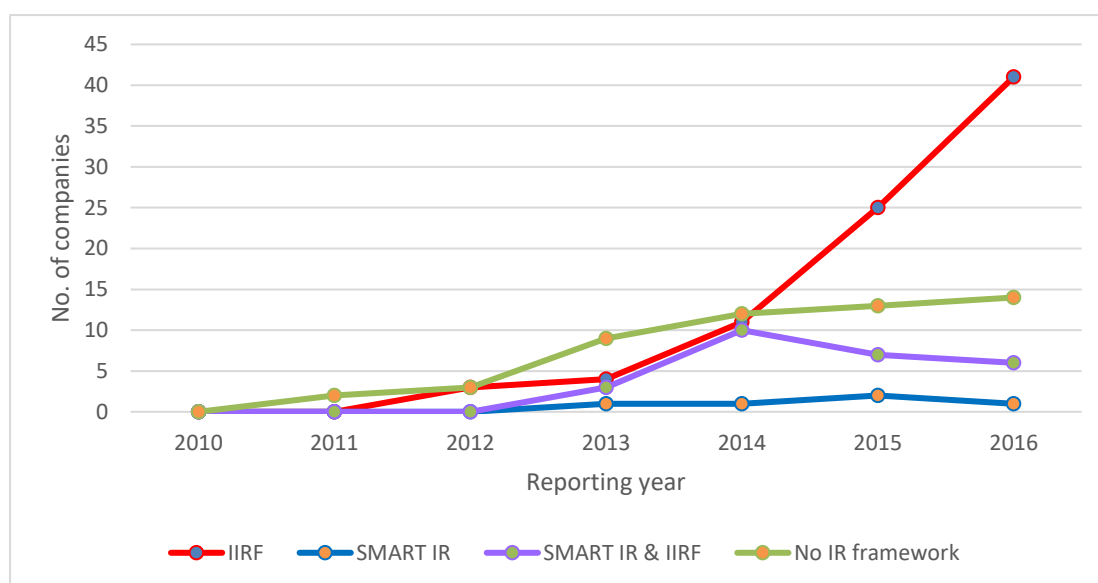


Figure 7.10: Base for IR adoption by IR adopters (Source: Author)

According to Figure 7.10, it is significant that the level of adoption of IIRF among the IR preparers was increasing over the time since 2012 (3) to 2016 (41). It is interesting to note that among the total adopters of IR, the majority of the companies who stated that they follow IIRF and the companies who did not state any IR framework, were falling into the categories of early and timely adopters. Similarly, all IR companies who stated that they adopted only the SMART IR or SMART IR together with IIRF were also falling into the categories of early and timely adopters of IR. None of the late adopters who embraced IR in 2015 and 2016 used either SMART IR or SMART IR and IIRF. That shows almost all the late adopters either stated IIRF or did not disclose any IR framework.

Overall, it is evident that while the extent of use of SMART IR, SMART IR and IIRF by the IR preparers and also the companies which have used none of the IR frameworks reduced after 2014, whereas the level of adoption of IIRF rose. This implies that the IR adopters gave high attention to IIRF with their adoption of IR in their organisations.

### 7.5.1 SMART IR

The Smart Integrated Reporting Methodology (SMART IR) was developed by “Smart Media The Annual Report Company” (SmartMedia) in 2009 with an objective of communicating each client’s unique story, beginning with a clean slate and an open mind (Smart, 2019). They identified Smart IR as “Smart one report” approach that integrated

financial and non-financial value creation which was vindicated with the emergence of the IIRF by IIRC. The voice from ARPC1's point of view was as follows:

*If you go back to say 30-40 years, we have heard and we were taught that about 80% of the value is captured within the financial statements. But now what happens is like by the day that percentage is coming down. Now they say like 80% of the value is outside the financial statements. So with all the accounting standards and the auditing that goes in, what happens is the financial statements will come with only about 20% of the value, so then the companies have to go in search of that 80%. What accounts for that 80%. That was our intention to go and see like is it in non-financials, intangibles and to communicate it through the report. The companies for example, corporates might be believing that they have very good prospects going forward, but unless that is communicated through the report to the users or the readers of the report, the investing community and all other stakeholders, like they will have their own perceptions which different from the prospects that the company actually believes that they have. So it is in that direction that we wanted like sort of our experiment at that time (Panel session of IR workshop, participant ARPC1-1).*

SmartMedia established its operations in 1994 as an annual reporting agency with an exclusive strategic focus and a communications-based approach to financial and corporate reporting (Smart, 2019). They engage in end-to-end service, including consultancy, design, writing, editorial, production and publication in multiple media, such as print, online, video and mobile as required.

One of the respondents added as follows:

*They [SmartMedia] are having their own integrated reporting framework (HT1-1).*

Among the timely adopters, one company started following SMART IR in 2013 (DH1) and another (MN1) joined in 2014 and continued to follow the same in 2015 as well. In 2015, B5 stated that they follow SMART IR and the same was disclosed in 2016 as well. The following Table 7.8 illustrates the excerpts from the relevant company's annual report, and it was clearly visible that SmartMedia as the annual report producer for the following companies used the same statement by changing the company name.

Table 7.8: Illustrations from company reports

| Company | Extraction  | Source                   |
|---------|---|--------------------------|
| DH1     | This Hayleys Plc annual report has been prepared using the Integrated Reporting Methodology of Smart Media The Annual Report Company.         | 2013, Back of cover page |
| MN1     | This Dipped Products Plc annual report has been prepared using the Integrated Reporting Methodology of Smart Media The Annual Report Company. | 2014, p.123; 2015, p.141 |
| B5      | This Seylan Bank Plc annual report has been prepared using the Integrated Reporting Methodology of Smart Media The Annual Report Company.     | 2015, p.437; 2016, p.301 |

From the document analysis, it was evident that the producer of the annual reports of these companies is SmartMedia. Further, the following provided supportive facts from the interviews:

*We initiated to introduce this change from year 2013 with Smart Media Printers. While we were providing all the information, they provided all instructions about the suitable time of preparing the annual reports and how it should be prepared (DH1-3).*

## 7.5.2 SMART IR and IIRF

The following illustration in Figure 7.11 shows an example as to how IR preparers disclosed that they used SMART IR together with IIRF.

|  |   |
|--|---|
| <p>In preparing this report, we drew mainly on the concepts, principles and guidelines enunciated in the following sources.</p> <ul style="list-style-type: none"> <li>• Global Reporting Initiative Sustainability Reporting Guidelines – GRI Standards (<a href="http://www.globalreporting.org">www.globalreporting.org</a>)</li> <li>• International Integrated Reporting Framework (<a href="http://www.theiirc.org">www.theiirc.org</a>)</li> <li>• Smart Integrated Reporting Methodology™</li> </ul> | <p>In preparing this Report, we have been guided by the principles and concepts of the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines G3.1 (<a href="http://www.globalreporting.org">www.globalreporting.org</a>), the International Integrated Reporting Framework (<a href="http://www.theiirc.org">www.theiirc.org</a>) and the Smart Integrated Reporting Methodology™ (<a href="http://www.smart.lk">www.smart.lk</a>) for integrated reporting, where applicable. The Company adopts an annual reporting cycle; hence the last published sustainability report appears in the KVPL Annual Report 2012, which covers the period 1 January 2012 to 31 December 2012.</p> |
|--|---|

Source: B9, AR of 2016, p.4

Source: PL1, AR of 2013, p.4

Figure 7.11: Illustration for the base of IR

As discussed in section 7.5, it was further evident that among the three early adopters who used SMART IR and IIRF (B5, B9 and PL1) in 2013 continued to report the same in 2014 as well. However, it is interesting to note that only B9 continues the same from 2015 onwards, whereas B5 limited its basis of adoption only to SMART IR and PL1 did not state about any IR framework from 2015 onwards.

One of the participants from PL1 communicated that:

*2013 report was developed by Smart (PL1-2).*

*They had their own Smart integrated platform and that helped us. Smart has their standards and everything. They do not move away from their standards (PL1-1).*

In B5, it is interesting to note that even though they stepped into IR in 2013 and continued in 2014 with SMART IR and IIRF together, they only stated about the SMART IR in their annual reports in 2015 and 2016. No statement was found on IIRF in the years 2015 and 2016.

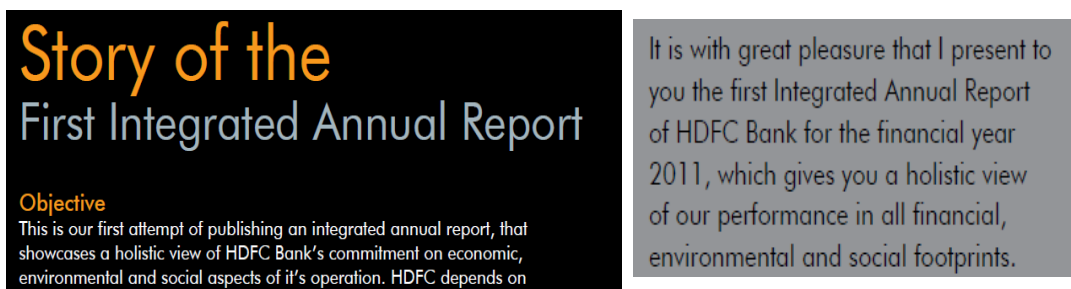
Overall, the number of companies in 2013 increased to 10 in 2014 and then the number gradually declined to 7 companies in 2015 and 6 in 2016. Here also, it was identified that the SmartMedia Company was the annual report producer for these companies.

### **7.5.3 IR adoption with ‘no clue of any IR framework’**

According to the sample data (in Table 7.7 and Figure 7.10), the two early adopters which prepared integrated reports in 2011 had not adopted the IIRF as it was established in 2013 December. What these two companies stated in their annual reports about their IR adoption captured the study’s attention. The following two extractions in Figure 7.12 illustrate how they stated that their report is an integrated report.



*Source: MT1, 2011 AR, p.4*



*Source: B1, 2011 AR, back of the cover page*

*Source: B1, 2011 AR, p.12*

*Figure 7.12: Illustrations from early adopters*

MT1 was one of the first companies to get involved in the IIRC pilot programme during 2011 to 2012, and it was the only Sri Lankan entity that participated in the pilot programme. Furthermore, MT1 was one of the two companies to adopt IR in the corporate reporting in Sri Lanka and to publish its first integrated report in 2011.

Apart from the above, MT1's Independent Assurance Statement on the Non-financial Reporting also stated the 2011 annual report as an integrated report as follows:

Det Norske Veritas AS (DNV) has been commissioned by the management of Diesel & Motor Engineering PLC (or the company) to carry out an assurance engagement on the non-financial data (economic, environmental and social indicators) in its Integrated Report 2010 -11 (the report) in its printed format against the Global Reporting Initiative (GRI) 2006 Sustainability Reporting Guidelines Version 3.0 (G3) and AccountAbility's AA1000 Assurance Standard 2008 (AA1000AS (2008)) (MT1 AR of 2011, p.220).

There is an exceptional case company here, B1, which stepped into IR as an early adopter in 2011 and continued in 2012, but moved away from IR during the two years 2013 and 2014 and embraced IR again in the year 2015 and 2016 as well. Thus, this particular company is not reflective of the timely adopters of the study sample, the 34 companies who boarded on IR in 2014.

As shown in Table 7.7, in 2012, the study found three companies (DH2, DH4 and HT3) who adopted IR, but not based on any IR framework. Being in the same group, DH4 and HT3 continued to follow the same till 2014 and started following IIRF from 2015 onwards, while DH2 continued the same in 2015 and joined IIRF in 2016.

For example, the Financial Controller of DH2 uttered the following:

*At that time, we were using our model of integrated reporting not that as per the framework. We were using our own version at that time (Interviewee DH2-1).*

He further clarified that their first integrated report which was based on this IR framework was published in 2016:

*We said somewhere this is our third integrated report according to the framework in 2018. Yes the second is 16/17 report and first is the 15/16. Earlier ones are our own versions of reporting (DH2-1).*

When the interviewer asked about this ‘own version of integrated reporting’ of DH2, the Group Finance Controller of DH2 further explained that:

*There's nothing call integrated for us. Because our silos, sectors and our management are already integrated...JKH is a company mostly our core is accounting and finance, people who are even in the top management level and the people who are controlling that entity like CFO/ CEO they are actually coming from the finance background...Then having this kind of a structure then automatically we are worried about the reducing number and thinking differently. Even though I'm using integrated word because it is now existed, we have a kind of linkages before. The group finance will take care of all the reporting things. They'll make sure that all 70 companies talking in a single language to the extent of the KPIs, operational KPIs. Then the message I'm try to give you is, when we have this kind of a version running here, then it's already integrated. We don't need to do linkages to show that, if you are talking about the human, we have our KPI inbuilt, then we don't need to have another KPI to measure it. Only thing is sometimes that particular KPI, we may be segregate into two to make sure that there is a clear identification in that number. Then those are small recalibration we can do, my point is, if your base is right in terms of the newer word call integrated, but all the linkages to the single reporting plat form are already there, then it is just a matter of pushing to the next level to get that number and the sector number and thing like that...I think the good thing is we are blessed with our state of art ERP system. SAP, then we use almost all the modules. The SAP product itself is an integrated one. It's a part of our DNA and this is the way that we really do and we'll stick on it. Because it's already there in us. Only thing is redefining some of our definitions. Redefining our industry specific reporting. Then information in terms of capitals and human or whatever already taken care of. Because we have been doing this GRI indicators so for long. Then that base information is already there, what is the KPIs and things like that we are looking for capital flow. Then the question mark of putting them to proper places (DH2-1).*

The analysis in Table 7.7 further found 9 companies in 2013 and 12 in 2014 who did not report on any IR framework in their annual reports. This number dropped to 7 in 2015 and further to only 3 in 2016. This drop is in association with the growth of the number of IIRF followers among the IR adopters.

As stated in the previous section 7.5, the findings in relation to the basis for IR adoption determine that the majority of the later adopters have either disclosed of IIRF or not disclosed of any IR framework in implementing IR practices.

With this, the study noted that some of the Sri Lankan listed companies have been using the term “integrated report” in their annual reports to communicate to the users that they have integrated their corporate information and presented it as an integrated annual report. From the participants’ viewpoints, it was further revealed that this has been practicing within themselves:

*But without referring to this framework, anyway we were moving in that direction in creating value and sustaining our business. We were moving in that direction, but maybe we can do it better by properly understanding and implementing this IR principles...Even before the framework came into operation, people were doing these things, practicing these things. Then the framework came and then we were able to adapt to the framework. Because this is what we already have been doing, whether there is a framework or not, we are doing it (PL3-1).*

*So we have been doing these things, now of course we have put nice labels and boxes and say sustainability, environment, we have been doing all these things as a system (PL1&2-1).*

*We have been doing these things. Although this has come in 2013, we have been practicing these always, because this is not rocket science, this governance, risk management, outlook and all. Maybe we would not have been reported those in a IIRC framework. But we have been practicing these (DH1-2).*

*We had that concept and with the IR approach comes, those segments put into a framework. Through the IR concept papers, we have seen that the capital formation has been done in this way, but, more or less the same as what we experienced before (TLC1-5).*

#### **7.5.3.1 Disclosures on IIRC in annual reports**

The IIRC as the governing body for the IR concept was established in 2010, and then it actively engaged in promoting the IR concept among the global business entities. The IIRC’s objective for this phase is to change the corporate reporting system so that integrated reporting becomes the global norm (IIRC, 2019).

However, the analysis shown in the following Figure 7.13 identifies that not all the Sri Lankan listed companies who have adopted IR across 2010 to 2016 have reported on the IIRC in their annual/annual integrated reports. For an example, none of the early adopters in 2011 reported on IIRC. In the following year, 3 out of 6 early adopters and 5 out of 17 early adopters in 2013 stated on IIRC in their annual reports. More than 50% of the timely adopters in 2014 and late adopters from 2015 onwards reported on IIRC.

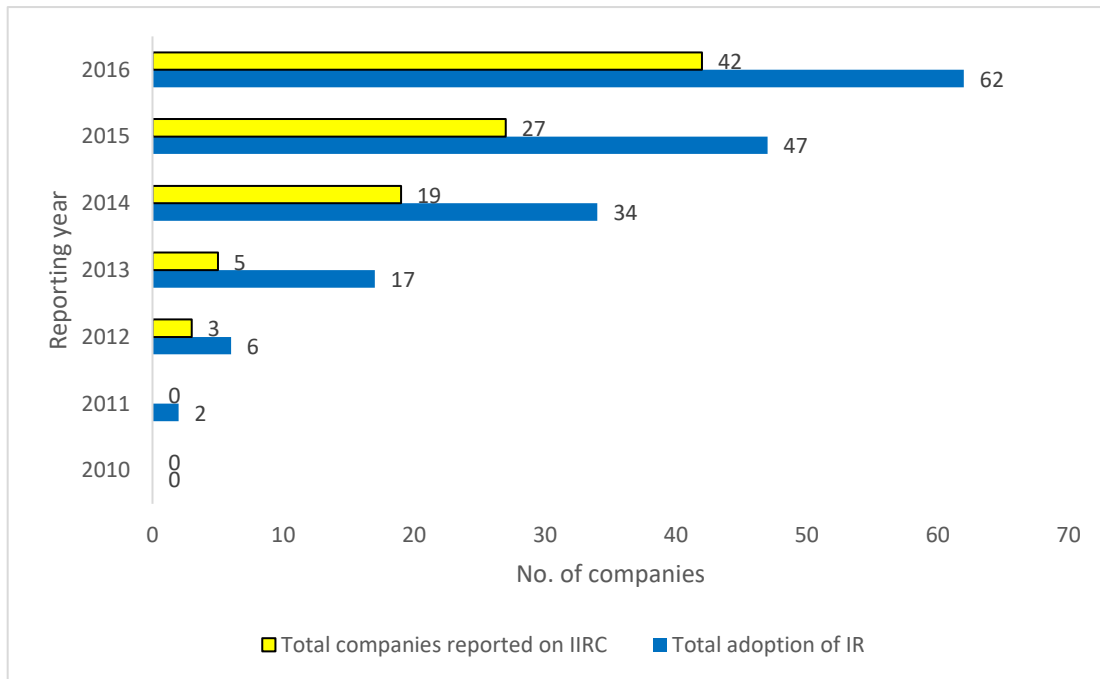


Figure 7.13: Number of IR adopters who reported on IIRC (Source: Author)

The above also draws out the fact that not all the Sri Lankan companies which have adopted IR have disclosed about the IIRC when they prepared their corporate reports based on IR. Consequently, the role of IIRC in promoting communication about value creation as the next step in corporate reporting is open to discussion in the Sri Lankan context.

This has made the researcher curious as to why these companies have not used the IIRF, even after 2014, as the globally recognised framework for IR. This may be due to a lack of knowledge and awareness on IIRF by the IR adopters (which is discussed as a challenge in IR in Chapter 11) and whether this concept of IR is meant in the same way to the IR adopters as it is defined in the IIRC in IR framework (this is discussed in Chapter 9).



## 7.6 IR adopters and sustainability reporting

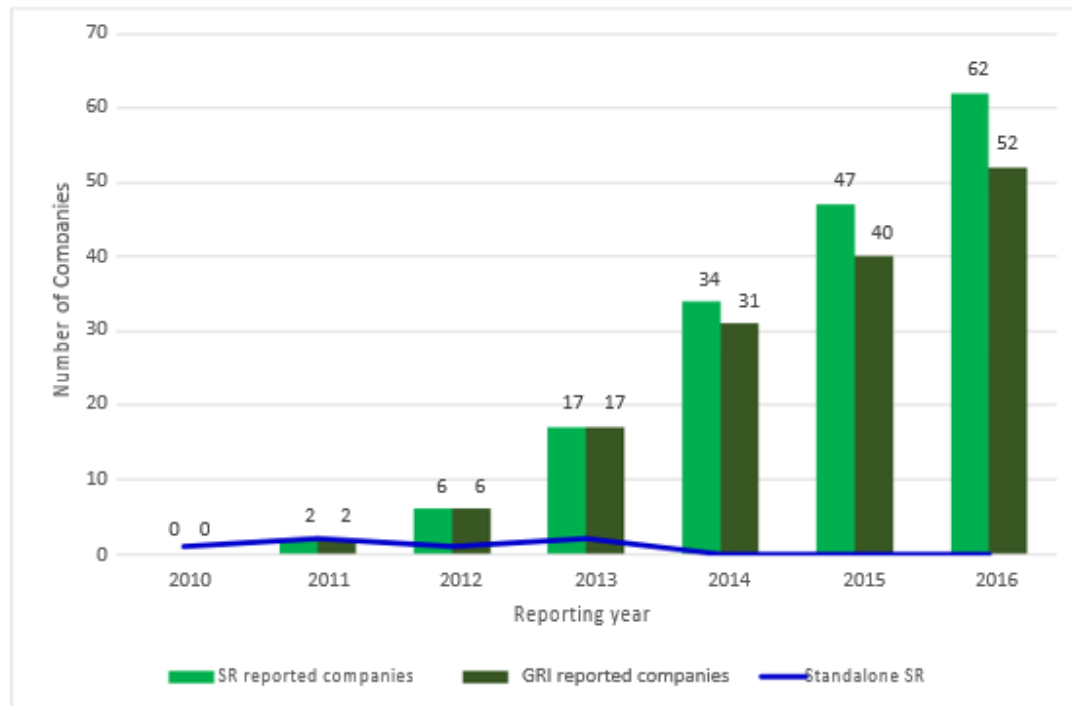


Figure 7.14: SR and GRI reporters out of IR adopters (Source: Author)

The above clustered column diagram shows the level of sustainability reporting (SR) and GRI reporting of the IR adopters across 2010 to 2016. Substantially, it shows that all the IR adopters in respective years also adopted SR and they reported on sustainability in the annual integrated reports themselves rather reporting in standalone sustainability reports. This is clear from the line graph of Figure 7.14, which shows no companies producing separate or standalone sustainability reports after 2014. This is confirmed with the following interview statements. One of the auditors shared a supportive statement as follows:

*Increasing integrated reporting decrease separate sustainability reporting (AU1-1).*

Views from IR adopters also confirmed the trend of moving from standalone SR to IR as follows:

*Instead of going separate sustainability and we can do all in one report in IR (HT2-1)*

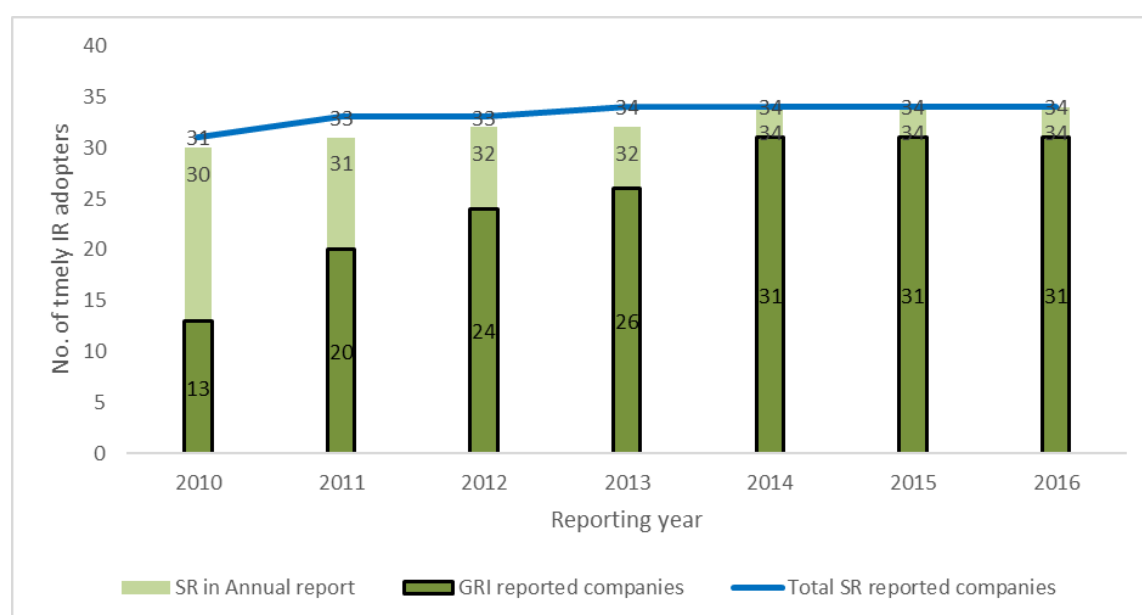
*In our case, It's all in one report. We don't differentiate it as such. So, sustainability will form the integrated reporting framework (TLC1-1).*

*Integrated reporting concept means that you have to connect sustainability reporting together (PL2-1).*

It is also noted that a significant number of IR preparers reported on GRI as well. Up to 2013, all the IR preparers reported on GRI.

Though it shows that all the preparers of IR also reported on GRI up to 2013, not all the IR and SR companies reported on GRI. In 2014, 31 out of 34 IR and SR reporters, in 2015, 40 out of 47 IR and SR reporters and in 2016, 52 out of 62 IR and SR reporters disclosed of GRI in their annual integrated reports. However, even after 2014, the number of GRI reports shows an upturn.

In order to find out whether these IR adopters have been reporting SR in their corporate reports in the past years, the present study carried out the above analysis by extending the study sample of timely adopters of IR over the study period 2010 to 2016. The results are shown in the following Figure 7.15.



*Figure 7.15: SR and GRI reporters out of timely adopters of IR (Source: Author)*

Out of the 34 timely adopters, the line graph of Figure 7.15 depicts the number of companies who reported on sustainability. Though it is identified that all the timely adopters adopted SR from 2013 onwards, during the period from 2010 to 2012, it was also identified that few companies had not reported on sustainability.

Out of those sustainability reporting companies, except for two companies in the ‘Banking’ sector (LF1 and B2) who have prepared standalone sustainability reports during

the period 2010 to 2013 (see Figure 7.14 and 7.15), all the other companies have reported on SR in the annual reports over the period 2010 to 2016. Similar results were confirmed in Gunaratne and Senaratne (2017), who stated that an analysis of past company annual reports and interviews revealed that the companies that had followed IR had previously prepared sustainability reports.

The following two illustrations (in Figures 7.16 and 7.17) show the examples for the companies who prepared standalone sustainability reports.

| OUR PROGRESS TOWARDS SUSTAINABILITY REPORTING |                               |                       |                    |                             |
|---|-------------------------------|-----------------------|--------------------|-----------------------------|
| Year  | Report Profile                | GRI Application Level | Declaration Status | External Assurance Provided |
| 2011  | Stand-alone Report            | GRI 3.1 Level B       | Self-declared      | YES                         |
| 2012  | Incorporated in Annual Report | GRI 3.1 Level B       | Self-declared      | YES                         |
| 2013  | Stand-alone Report            | GRI G4 Comprehensive  | -                  | YES                         |
| 2014  | Integrated Report             | GRI G4 Comprehensive  | -                  | YES                         |
| 2015  | Integrated Report             | GRI G4 Comprehensive  | -                  | YES                         |
| 2016  | Integrated Report             | GRI G4 Comprehensive  | -                  | YES                         |

Figure 7.16: A Snapshot of B2's progress towards SR (Source: AR of B2, 2016, p.5)

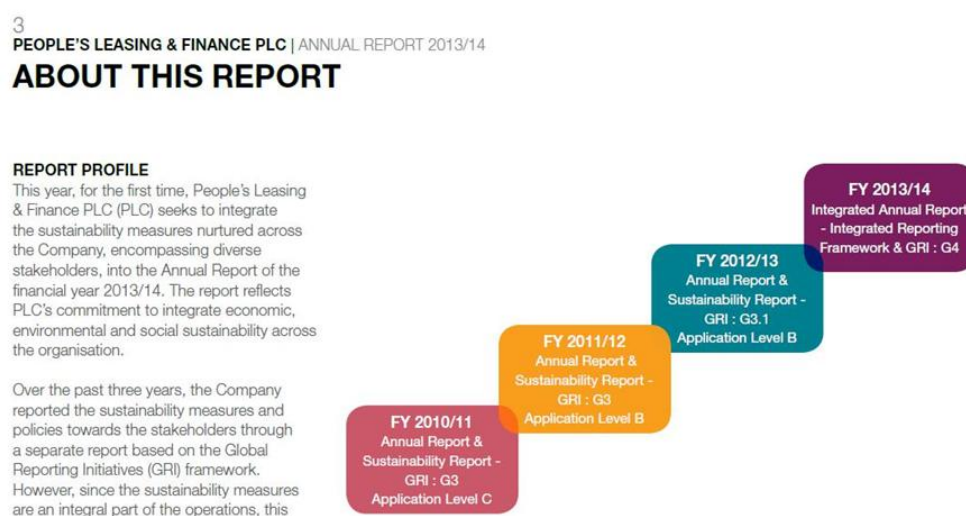


Figure 7.17: A Snapshot of PLF1's progress towards SR (Source: AR of PLF1, 2014, p.3)

Furthermore, the GRI reporters among IR timely adopters are also highlighted in Figure 7.14. Even in 2010, it is noted that 13 out of 31 SR reporters followed GRI showing a 42% GRI adoption rate. From 2011 onwards, the GRI reporters among the timely adopters of IR increased throughout the period showing an upward trend of a more than 90% GRI adoption rate from 2014 onwards.

### **7.6.1 GRI guideline and GRI ratings of timely adopters**

All throughout the seven-year period, among the 34 timely adopters (then, firm-year observation is 238), 74% (176 out of 238) used different GRI guidelines in reporting the sustainability performance and measures. Table 7.9 indicates that during the early stage of the study sample, which is from 2010 to 2013, most of the timely adopters (88) followed G3 (45) and G3.1 (43). G3 was the third generation of the GRI guidelines which represented the global framework for comprehensive SR. G3 was launched in 2006. After five years, in 2011, the G3.1 guideline was released by the GRI with an update and completion of G3.

In 2013, GRI released the fourth generation of its Guidelines, G4, offering reporting principles and standard disclosures for the preparation of sustainability reports by organisations. Except for 3 companies in 2013, 24 companies used G4 in 2014 and the number increased to 30 from 2015 onwards. The total G4 followers out of 34 timely adopters over the seven-year period was 87. Along with the establishment of the GRI standards (GRIS) in 2016, as the first global standards for SR, it is interesting to see that only one company (B9) used GRIS as the basis in reporting of the sustainability disclosures as follows:

..hence in this Report we have adopted the latest prescribed version of GRI Standards for sustainability reporting (AR of B9, 2016, p.11).

Additionally, Table 7.9 also concludes that over the seven-year period, timely adopters followed the GRI along with the updated guidelines showing a declining trend in the non-GRI followers, from 21 in 2010 to only 3 in 2014. In 2014 and 2015 CN3, DH3 and MN1 were the non-followers of GRI. Out of these three, it was noted that DH3 did not report on GRI from 2010 to 2016, whereas CN3 was found with GRI reporting during 2010 to 2013 and they abandoned GRI reporting from 2014 onwards. With no GRI disclosures since 2010 to 2015, MN1 entered GRI reporting in 2016, while IN5 ceased GRI reporting in 2016.

Table 7.9: Use of different GRI guidelines by IR timely adopters

| GRI Guideline                                  | 2010      | 2011      | 2012      | 2013      | 2014      | 2015      | 2016      | Total |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------|
| G3   | 13        | 17        | 11        | 4         | 0         | 0         | 0         | 45    |
| G3.1   | 0         | 3         | 13        | 19        | 7         | 1         | 0         | 43    |
| G4   | 0         | 0         | 0         | 3         | 24        | 30        | 30        | 87    |
| GRIS   | 0         | 0         | 0         | 0         | 0         | 0         | 1         | 1     |
| Total GRI followers out of timely adopters     | <b>13</b> | <b>20</b> | <b>24</b> | <b>26</b> | <b>31</b> | <b>31</b> | <b>31</b> | 176   |
| Total non-GRI followers out of timely adopters | 21        | 14        | 10        | 8         | 3         | 3         | 3         | 62    |
| Grand total                                    | 34        | 34        | 34        | 34        | 34        | 34        | 34        | 238   |

## 7.6.2 GRI ratings

GRI application levels, as A, B and C, define the amount of GRI standard disclosures that have been covered in a sustainability report and application level ‘A’ represents the largest number of GRI disclosure items that can be addressed in a report, and level ‘C’ the smallest (GRI, 2019). The following shows an example for disclosure of such application levels:

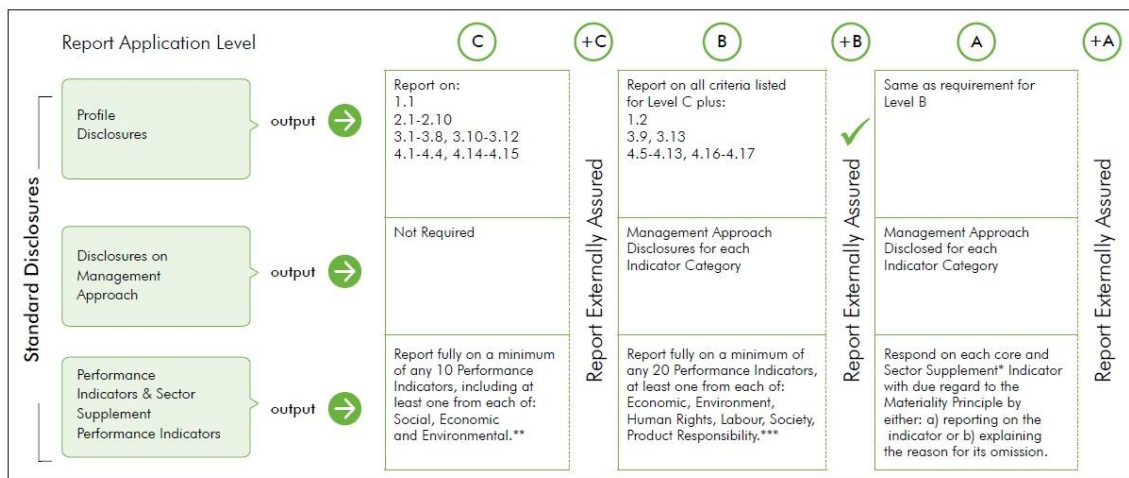


Figure 7.18: GRI rating (Source: AR of HCI, 2014, p.137)

The analysis found that from 2013 onwards, most of the timely adopters (87, with 49%) prepared their reports ‘in accordance’ with GRI G4 guidelines fulfilling the criteria under the “core” option. Despite the core criteria, the majority of the companies (during the period 2010 to 2013) achieved a GRI rating of C+ or C (33) followed by B (29), B+ (17), A (4) and A+ (6). In terms of the analysis of the application level, while only 6% of the reports are rated as A+ and A, 26% are rated B+ and B, and 19% as C+ or C. These findings are in contradiction to Tertia and Pieter (2012) and Wild and van Staden (2013), who found that most of the companies in their study sample achieved a GRI rating of A+ and B+.

Table 7.10: GRI ratings of timely adopters

| <b>GRI Rating</b> | <b>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>Sub total</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>Total</b> |
|-------------------|-------------|-------------|-------------|-------------|------------------|-------------|-------------|-------------|--------------|
| A+                | 0           | 2           | 2           | 2           | 6                | 0           | 0           | 0           | 6            |
| A                 | 1           | 1           | 1           | 1           | 4                | 0           | 0           | 0           | 4            |
| B+                | 4           | 2           | 3           | 6           | 15               | 2           | 0           | 0           | 17           |
| B                 | 4           | 7           | 8           | 7           | 26               | 2           | 1           | 0           | 29           |
| C+ & C            | 4           | 8           | 10          | 7           | 29               | 4           | 0           | 0           | 33           |
| core              | 0           | 0           | 0           | 3           | 3                | 23          | 30          | 31          | 87           |
| <b>Total</b>      | <b>13</b>   | <b>20</b>   | <b>24</b>   | <b>26</b>   | <b>83</b>        | <b>31</b>   | <b>31</b>   | <b>31</b>   | <b>176</b>   |

Unlike in Wild and van Staden (2013), where reports were found without ratings, Table 7.9 and 7.10 justify the fact that all the timely adopters who followed the GRI guideline (176) declared their application levels as well.

Along with this discussion, the present study would also like to bring an amendment to one of the findings in Wild and van Staden (2013), where it was stated that the majority of their sample reports which were rated as A+, A, B+ and B are of high quality. GRI, very clearly and very importantly, has declared that ‘Application Levels’ are often misinterpreted and they are neither a rating of an organisation’s sustainability performance nor of report quality and they are also not a representation of formal compliance or accordance with GRI’s Guidelines (GRI, 2019). In essence, the GRI website has also stated that the ‘Application Levels’ provide organisations with a way to objectively display their use of GRI’s framework.

Despite the above, some contradictory results were also found in the present study sample compared to the proclamation in GRI with regard to the ‘Application Levels’. As in GRI, the application level A+ shows that a report has been externally assured (GRI, 2019). Though there were only two timely IR adopters who achieved the A+ rating in the present study sample, the number of timely IR adopters who reported on external assurance on sustainability information is quite high. This is discussed in detail in the next sub-section.

## 7.7 External assurance on financials and non-financial information or sustainability information

This sub-section provides an analysis of the extent of audit financials and external assurance obtained from an independent assurance provider for the non-financials. The analysis is limited to the timely adopters of IR as the study sample.

### 7.7.1 External assurance on audit financials

With regard to the independent assurance on the financial statements, Table 7.11 shows that only two audit firms (EY, 47% and KPMG, 42%) out of ‘Big four’ audit firms (EY, KPMG, PWC and SJMS) audited 89% of the financial reports of the 34 timely adopters over the seven-year period. SJMS Associates (a member firm of Deloitte Touche Tohmatsu Limited) (5%) and PWC (3%), about less than 10% of the companies compared to other two.

Table 7.11: Audit financials of timely adopters

| Audit firm | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Total |
|------------|------|------|------|------|------|------|------|-------|
| EY         | 14   | 14   | 15   | 15   | 17   | 18   | 18   | 111   |
| KPMG       | 16   | 16   | 15   | 15   | 13   | 13   | 13   | 101   |
| SJMS       | 2    | 2    | 2    | 2    | 2    | 1    | 0    | 11    |
| PWC        | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 7     |
| CAC        | 1    | 1    | 1    | 1    | 0    | 0    | 0    | 4     |
| BDO        | 0    | 0    | 0    | 0    | 1    | 1    | 2    | 4     |
| Total      | 34   | 34   | 34   | 34   | 34   | 34   | 34   | 238   |

The above can be shown in the following Figure 7.19.

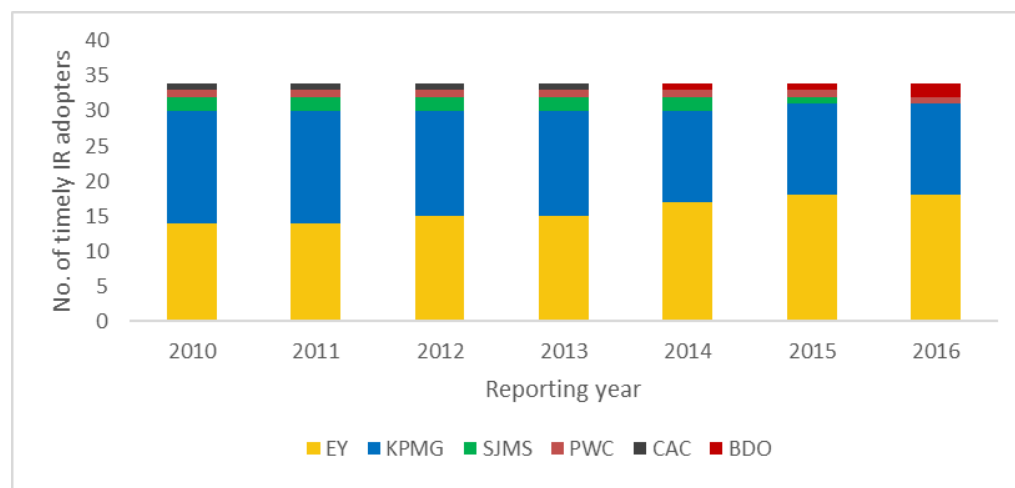


Figure 7.19: Independent auditors/audit financials of the timely IR adopters (Source: Author)

In Wild and van Staden (2013), it was found that the big four audit firms audited about 83% of the 58 companies in the order of EY, PWC, KPMG and Deloitte. However, the present study brings similar results to Wild and van Staden (2013), only relating to EY and KPMG being the leaders in providing the audit financials, while bringing contrary results relating to SJMS and PWC. Except for the big four auditors, the analysis also found a few other auditors such as CAC (Cecil Arseculeratne & Company) and BDO Partners, with a less than 2% of the audit financials. Among the timely IR adopters, while PWC has remained in the audit financials market even with a low percentage, SJMS did not audit any report in 2016. In addition to that, CAC lost the market to BDO audit partners from 2014 onwards.

### **7.7.2 External assurance on non-financials**

To determine the credibility of non-financial information including SR frameworks, initiatives and measures and the standard disclosures such as GRI guidelines, some companies sought an independent verification from an external assurance provider. Most of the time the same external auditor pertaining to the financial aspects of those companies provided the independent assurance report for their sustainability mechanisms as well. For an example, the following conveys why companies tend to obtain such independent external assurance:

Independent assurance is a widely accepted norm within the process of reporting sustainability performance. The Bank recognises that independent assurance enhances the transparency and credibility of its reporting process through the delivery of superior value to the Bank, users of the report and broader stakeholder groups and individuals. (AR of B8, 2016, p.12)

In the selected sample of timely adopters, 42% (with 101 reports) of the IR adopters obtained the assurance statement from only three out of big four auditors such as KPMG, EY, SJMS and other auditors such as BDO. None of the timely IR adopters obtained assurance from PWC. On the other hand, nearly 6% (14) of the timely IR adopters obtained that certification from global providers of assurance specialists such as DNV GL (Det Norske Veritas Germanischer Lloyd) Business Assurance Lanka Pvt Ltd (DNV-GL). See Table 7.12. Yet, a considerable proportion of reports (57%, i.e. more than half of the reports) were not assured, confirming the results of Wild and van Staden (2013).



Table 7.12: Providers of independent external assurance on non-financials for timely IR adopters

| Sector                                       | Assurance Provider | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Total |
|--|--------------------|------|------|------|------|------|------|------|-------|
| <b>Banking sector timely IR adopters</b>     | KPMG               | 3    | 3    | 4    | 6    | 5    | 5    | 5    | 31    |
|  | EY                 | 0    | 2    | 2    | 3    | 6    | 7    | 6    | 26    |
|  | SJMS               | 0    | 2    | 2    | 2    | 2    | 1    | 0    | 9     |
|  | BDO                | 0    | 0    | 0    | 0    | 1    | 1    | 2    | 4     |
|  | Other (DNV-GL)     | 0    | 0    | 0    | 0    | 0    | 0    | 1    | 1     |
| Sub total                                    |                    | 3    | 7    | 8    | 11   | 14   | 14   | 14   | 71    |
| <b>Non-banking sector timely IR adopters</b> | KPMG               | 0    | 0    | 0    | 1    | 2    | 1    | 1    | 5     |
|  | EY                 | 0    | 0    | 0    | 1    | 4    | 4    | 3    | 12    |
|  | Other (DNV-GL)     | 1    | 1    | 3    | 2    | 2    | 2    | 2    | 13    |
| Sub total                                    |                    | 1    | 1    | 3    | 4    | 8    | 7    | 6    | 30    |
| Total (assured)                              |                    | 4    | 8    | 11   | 15   | 22   | 21   | 20   | 101   |
| Total (non-assured)                          |                    | 30   | 26   | 23   | 19   | 12   | 13   | 14   | 137   |
| Total timely adopters                        |                    | 34   | 34   | 34   | 34   | 34   | 34   | 34   | 238   |

As shown in Figure 7.20, out of the 34 timely IR adopters, 17 banking sector companies placed a high focus on the independent assurance statement over the 17 non-banking sector IR adopters. For an example, Table 7.12 shows that out of 17 banking sector timely IR adopters, 3 companies in 2010, 7 in 2011 and 8 in 2012 disclosed an independent assurance statement on the non-financial information. The number increased to 11 in 2013 and remained at 14 from 2014 onwards. Meanwhile, out of 17 non-banking sector timely IR adopters, only one company obtained such assurance in the years 2010 and 2011 and then the number increased to 8 in 2014. However, after 2014, a decreasing trend is indicated by the non-banking companies.

Conversely, the trend line of the total assurance statement providers out of total IR adopters over the seven-year period year shows an improvement. Though the increase is in small numbers, it shows a growth even after 2014. When considering the trend line, the 2 early adopters in 2011, 3 out of 6 early adopters in 2012, 10 out of 17 early adopters in 2013 disclosed on an assurance statement. While 64% of the timely adopters (22 out of 34) obtained such assurance report in 2014, the percentage of companies reduced to 53% (25 out of 47) in 2015 and further to 42% (26 out of 62) in 2016 among late adopters. Findings confirm with Miller, Fink, and Proctor (2017)'s study, which revealed an increase in the percentage of integrated reports with external assurance from 2013 to 2014.

According to ACCA’s insights into IR assurance, 60% of the reports reviewed gained some form of assurance on their report in addition to the statutory audit (up from 46% last year) in their ACCA (2018) study. In its “Insights into integrated reporting 3.0: The drive for authenticity” publication in 2019, ACCA noted that 2019 saw the emergence of a higher level of assurance on the content of integrated reports (ACCA, 2019).

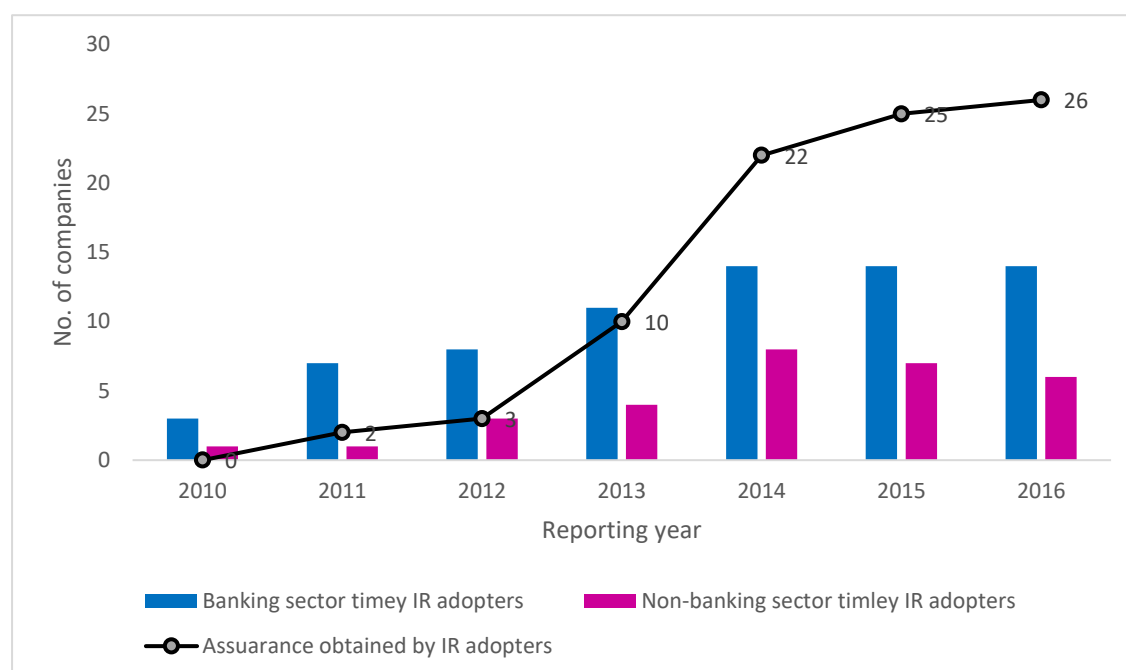


Figure 7.20: Number of companies obtained the assurance statement (Source: Author)

Moreover, as indicated in the above Table 7.12, while most of the timely IR adopters in the banking sector obtained the assurance report from the KPMG during 2010 to 2013, from 2014 onwards, EY led in providing the independent assurance statement in the banking sector and in the non-banking sector as well. Compared to the banking sector, DNV-GL also played a predominant role in providing the same in the non-banking sector throughout the period.

Overall, it shows that a similar trend (Table 7.11 and 7.12) was followed by the timely IR adopters in selecting the audit financials for the financial information and external assurance service provider. For an example, while KPMG dominated the market in providing the audit financials as well as external assurance on non-financials during the period 2010 to 2013, EY captured the market of both independent assurance on financial information and non-financial information from 2014 onwards. SJMS, which is a member of Deloitte, provided the service to only 4% of the timely adopters, confirming the

findings of Wild and van Staden (2013) which showed that Deloitte lagged behind the other audit firms in providing the external assurance for non-financial information. However, it is also noted that neither PWC (out of big four) nor CAC engaged in providing the external assurance for non-financial information. This contrasts with Wild and van Staden (2013) again, where PWC assured the majority of the companies for their non-financial information.

Noticeably, as in Wild and van Staden (2013), the influence of the audit firms on the audit financials and external assurance on non-financials is clear from the above analysis. Although the extent of influence of these audit firms for their clients in incorporating IR in their corporate reporting process was not addressed in Wild and van Staden (2013), the present study brings the interview data to identify such influence and it is addressed in Chapter 8 under auditor's influence. Further, the assurance is also discussed in Chapter 11 as a challenge in IR. This assurance of IR is an aspect considered in the IIRC 2020 IIRF revision programme too.

## 7.8 Annual report producing companies (ARPCs) and IR

In preparing the corporate reports, publicly listed companies in Sri Lanka gained the service from annual report producing companies. These ARPCs play a dominating role in addressing the designing and publishing needs of a diverse client portfolio, including top corporate companies, public institutions, non-governmental organisations and even small and medium enterprises in Sri Lanka. More importantly, these ARPCs also specialise in preparing annual reports. They are also called as AR agencies, AR printing agencies and AR resource companies.

Table 7.13: ARPCs of timely adopters of IR

| Annual report producing company | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Total | %     |
|---------------------------------|------|------|------|------|------|------|------|-------|-------|
| Emagewise                       | 8    | 8    | 12   | 12   | 11   | 13   | 14   | 78    | 32.8  |
| SmartMedia                      | 5    | 7    | 6    | 9    | 13   | 11   | 10   | 61    | 25.6  |
| Copyline                        | 5    | 6    | 7    | 3    | 1    | 1    | 1    | 24    | 10.1  |
| Optima                          | 1    | 1    | 1    | 4    | 6    | 6    | 5    | 24    | 10.1  |
| Redworks                        | 1    | 1    | 2    | 2    | 1    | 1    | 1    | 9     | 3.8   |
| Other                           | 3    | 3    | 3    | 1    | 1    | 2    | 3    | 16    | 6.7   |
| None*                           | 11   | 8    | 3    | 3    | 1    | 0    | 0    | 26    | 10.9  |
|                                 | 34   | 34   | 34   | 34   | 34   | 34   | 34   | 238   | 100.0 |

\*These are the reports that did not obtain the service from an ARPC or we could not find it in reports.

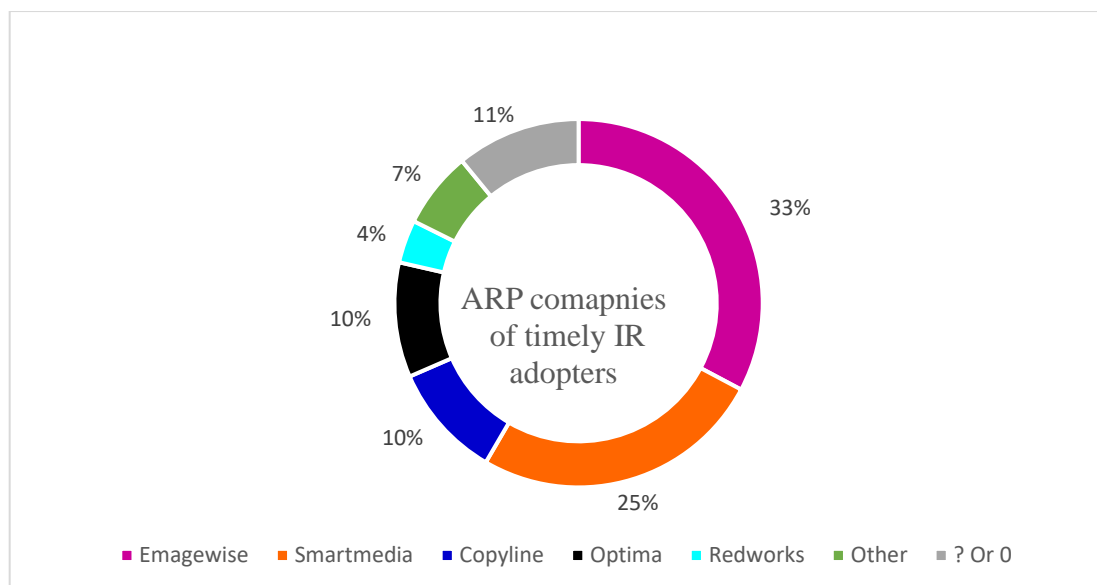


Figure 7.21: % of ARPCs reported in ARs of timely adopters (Source: Author)

As in Table 7.13 and Figure 7.21, the majority (33%) of the timely adopters' integrated reports were designed and printed by Emagewise, followed by SmartMedia (26%), Copyline and Optima (with an equal % of 10%) and Redworks (4%). The other category of 7% includes some other ARP companies, such as MediaWize, Visage Spice, GH Resources, C+ Design and Ceylon Printers.

One of the writer's views also was that ARPC2 was the largest ARPC in Sri Lanka:

*ARPC2 is the largest annual report producer (ARW1-1).*

From their own voice, one of the members in ARPC2 shared that:

*We do about 100 reports. For the whole year we go about 100 reports in total. The 31<sup>st</sup> December we don't have that much, generally there are handful of companies, banks, multinationals, plantations and in that season we have about 15. Balance over the year (ARPC2-1).*

Unfortunately, we found 11% of the reports without any clue about the designer or the printer of that particular AR. Those companies may not have obtained the service from an ARPC or we could not find the ARPC in the annual report. One of the ARPC members provided the following when asked the reason for the non-appearance of ARPC names in ARs:

*If you go to the last page, it's there. So, all our reports 99% carry our ARPC3 logo at the back unless a report that we are not very happy with it, then we take our name off (Interviewee, ARPC3-1).*

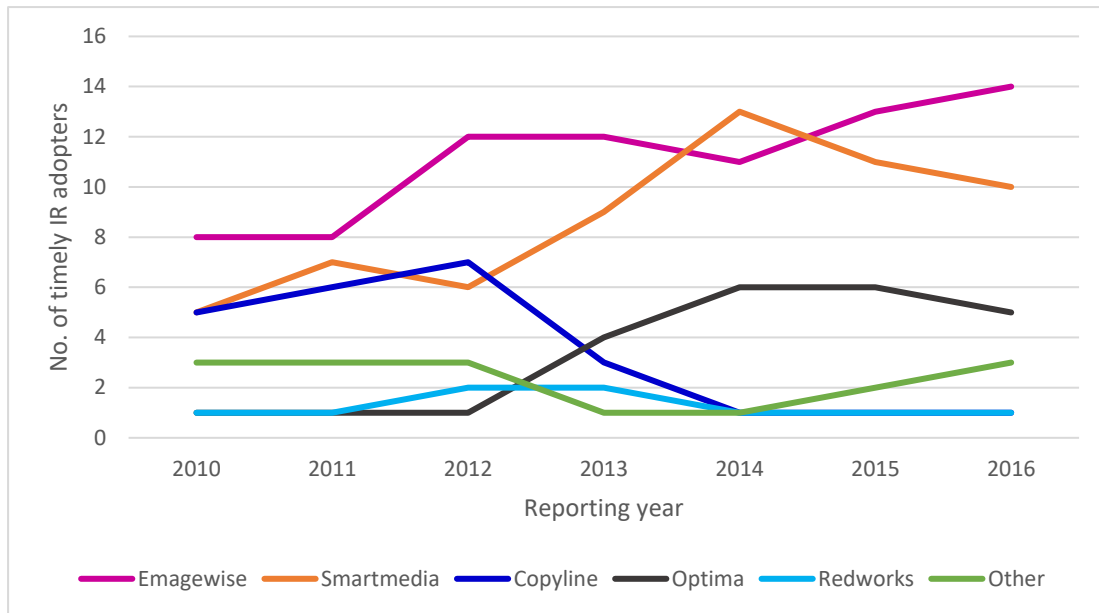


Figure 7.22: Engage of ARPCs on AR preparation over the seven-year (Source: Author)

From the above Figure 7.22, it is visible that only Emagewise followed an upward trend over the time period, except for the drop in 2014, while dominating the market of ARPCs. Emagewise is a fully owned subsidiary of the communications powerhouse Triad (Pvt) Ltd (an advertising agency) for annual report design and production.

Compared to Emagewise, SmartMedia, in 2014, was the market leader among the timely IR adopters in terms of their annual report designing and printing. However, SmartMedia shows a decreasing trend from 2015 onwards. The background and the service of SmartMedia is discussed in section 7.5.1. The following trend diagram provides the corresponding results for the number of timely adopters who obtained the ARP service from SmartMedia and the number of timely IR adopters who have followed the SMART IR (i.e. the total users of SMART IR only, and SMART IR with IIRF) (as in section 7.5.2). Trend lines show a similar pattern in terms of their adoption of SMART IR with SmartMedia. It further shows that though SmartMedia continued providing its service after 2010, the timely IR adopters of IR started following SMART IR framework from 2013. In 2014, SmartMedia reached its maximum client base while expanding its followers of the SMART IR framework. Subsequently, both the users of SmartMedia and the followers of SMART IR decreased after 2014.

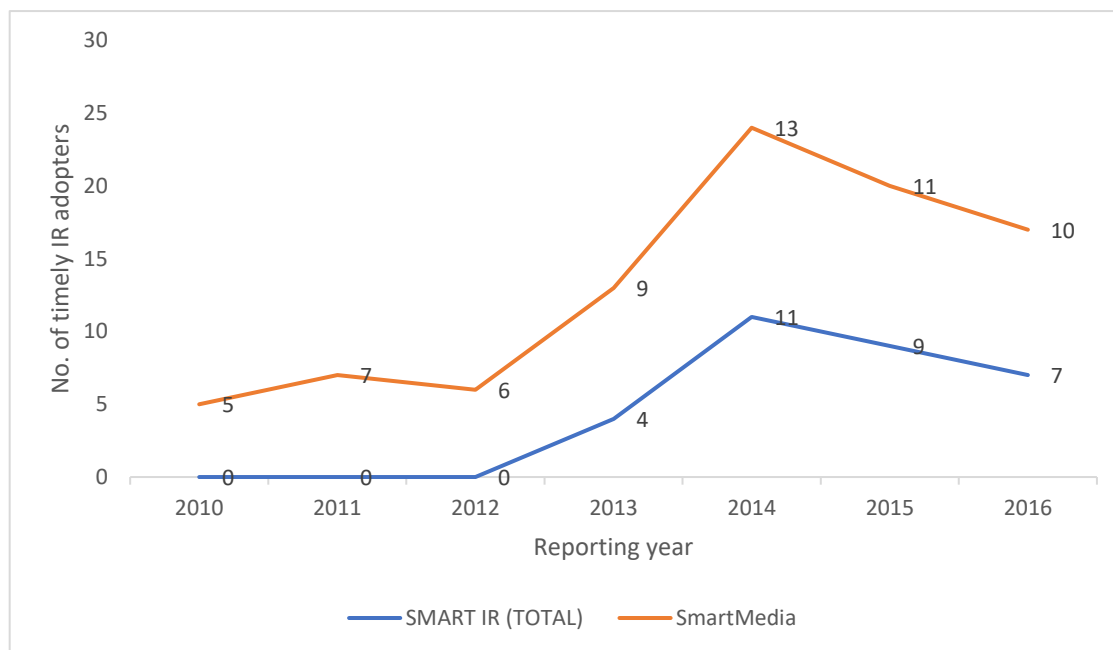


Figure 7.23: Use of SmartMedia and SMART IR by timely adopters of IR (Source: Author)

In terms of Copyline and Optima, though they represented an equal percentage (Figure 7.21) in providing their service to the timely IR adopters, the two trend lines (Figure 7.22) identified a clear disparity among them over the period of seven years. For example, from 2010 to 2012, while Copyline was increasing its portfolio of companies, Optima was providing the service to only one company. Whereas from 2013 onwards, Optima increased their client profile over Copyline, which had only one client out of 34 timely IR adopters from 2014 onwards (Table 7.13).

One of the writers also shared that ARPC3 is trying to improve their learning towards IR:

*[Name of the CEO of ARPC3] is looking for someone to teach them. Unlike [ARPC2] and [ARPC1], he invested in learning (ARW1-1).*

In addition to all this, the influence from ARPCs on the adoption of IR by the sample companies is discussed in Chapter 8.

## 7.9 Number of pages of annual reports of sample companies

The size of the reports, in terms of the number of the pages, that were published by the selected sample companies is depicted through Figure 7.24. It shows that during the early period or the transition period (Clayton et al., 2015) of 2010 to 2013, which is prior to the introduction of the IIRF in December 2013, the average length of the reports steadily increased. Further, in 2014, in conjunction with the introduction of the IIRF, the average

length of the reports started to decrease and continued to be reduced even in the following year 2015. Despite the difference in the time periods, similar results were found in Clayton et al. (2015) in the South African context, showing that prior to the introduction of IR, during the period 20008 to 2011, the average length of the reports of the eight JSE listed companies gradually increased and then after the pronouncement of the world's first guideline for IR, titled, "Framework for IR and the Integrated Report: Discussion Paper" by IRCSA in January 2011 which is followed the publication of King Code III in 2010, the length of the reports decreased in 2012 and 2013. The reason for the difference in the time period is because the emergence of IR was first found in South African region following the above-mentioned two publications, where JSE listed corporates transitioned to integrate reporting in 2011. Clayton et al. (2015) further claimed that this decreased length was found to be the result of publishing about only those issues material to the company.

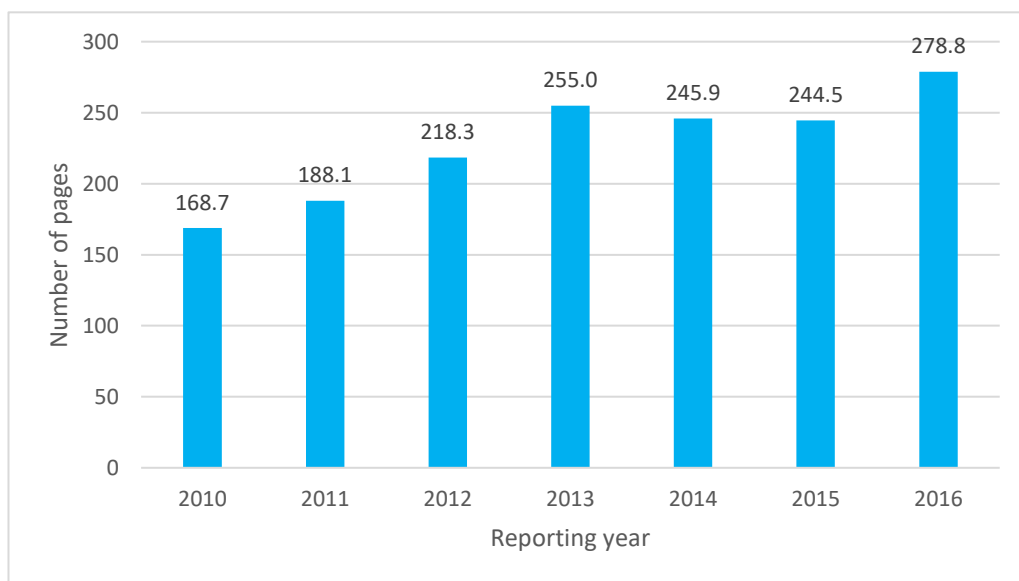


Figure 7.24: Average length of reports published (Source: Author)

However, through the present study results, it was noticeable that the average length of the reports of the 34 selected Sri Lankan companies suddenly increased in 2016. This trend makes the Clayton et al. (2015) argument of publishing only material issues dubious in the Sri Lankan IR context. The materiality and conciseness of information is further discussed in Chapter 11.

Table 7.14 and Figures 7.25 and 7.26 exhibit more detailed information with relation to the different page limits. Figure 7.25 depicts the averages of the different page limits

(Ruiz-Lozano & Tirado-Valencia, 2016) across the seven-year period of the study sample. Page limits were designed with an interval of 75.

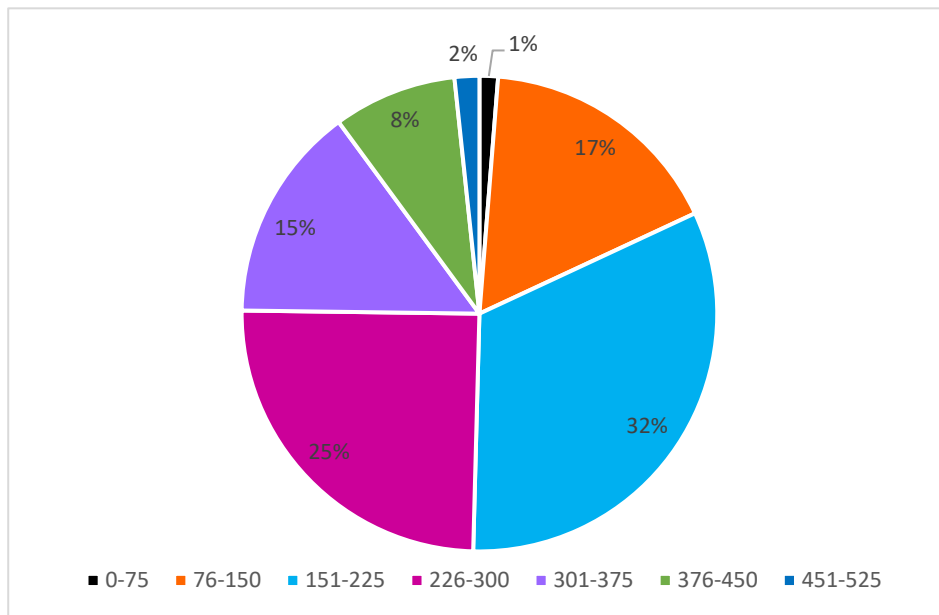


Figure 7.25: Averages of the different page limits (Source: Author)

It was noted that only 1% of the total 238 reports reviewed published their report with the least number of pages, which is less than 75 pages. And 17% of the reports were found within the page limit of 76-150. More than half (57%) of the reports were within the page range of 150-300. And another quarter of the reports (25%) were published as lengthy reports which had more than 300 pages. Out of that, 15% were within the page range of 301-375, 8% within 376-450 and also 4 reports (with 2%) were falling within the maximum page range group of 451-525.

Overall, it was noted that irrespective of the variations in the trend of the average length of the reports (as in Figure 7.24), the size of the reports published by timely adopters are at a higher level (Figure 7.25).

Table 7.14: Different page limits of timely IR adopters

| Page range                  | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Total | %     |
|-----------------------------|------|------|------|------|------|------|------|-------|-------|
| 0-75                        | 1    | 1    | 1    | 0    | 0    | 0    | 0    | 3     | 1     |
| 76-150                      | 15   | 11   | 4    | 3    | 3    | 2    | 2    | 40    | 17    |
| 151-225                     | 11   | 12   | 15   | 10   | 11   | 10   | 8    | 77    | 32    |
| 226-300                     | 6    | 9    | 8    | 10   | 9    | 8    | 9    | 59    | 25    |
| 301-375                     | 0    | 0    | 4    | 9    | 7    | 5    | 10   | 35    | 15    |
| 376-450                     | 1    | 1    | 2    | 2    | 3    | 6    | 5    | 20    | 8     |
| 451-525                     | 0    | 0    | 0    | 0    | 1    | 3    | 0    | 4     | 2     |
| Total timely adopters of IR | 34   | 34   | 34   | 34   | 34   | 34   | 34   | 238   | 100.0 |



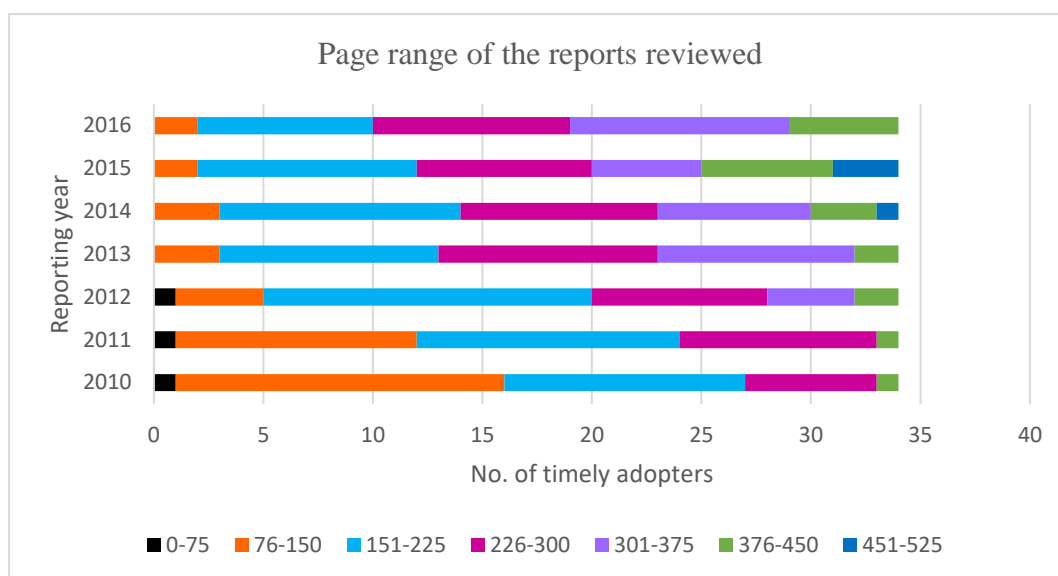


Figure 7.26: Different page ranges of the reports reviewed of timely adopters (Source: Author)

Figure 7.26 and Table 7.14 also provide supporting evidence for the above analysis by showing how 34 timely adopters prepared their 238 reports with different page ranges in each of the years considered in the study period. For example, only one company out of 34 prepared their three reports within the period 2010 to 2012 is identified within the least report size (0-75 pages) with 56 pages. Although the reports within the page range of 76-150 were found among the majority of the companies (15) in 2010, the number reduced to 2 in 2016 following a decreasing trend after 2011. Alternatively, the reports with 376-450 pages steadily increased from 1 in 2010 to 6 in 2015.

Reports within the page ranges 151-225 and 226-300, which were showing variations all throughout the seven-year period, were difficult to discern. No reports found within the page range 301-375 in 2010 and 2011. Four of the lengthiest reports were only found in 2014 and 2015. Further, it was revealed that all the reports found in the two largest page range categories (375-450 and 451-525) are from banking sector.

In the following Figure 7.27, the above analysis is extended to the banking and non-banking sector separately.

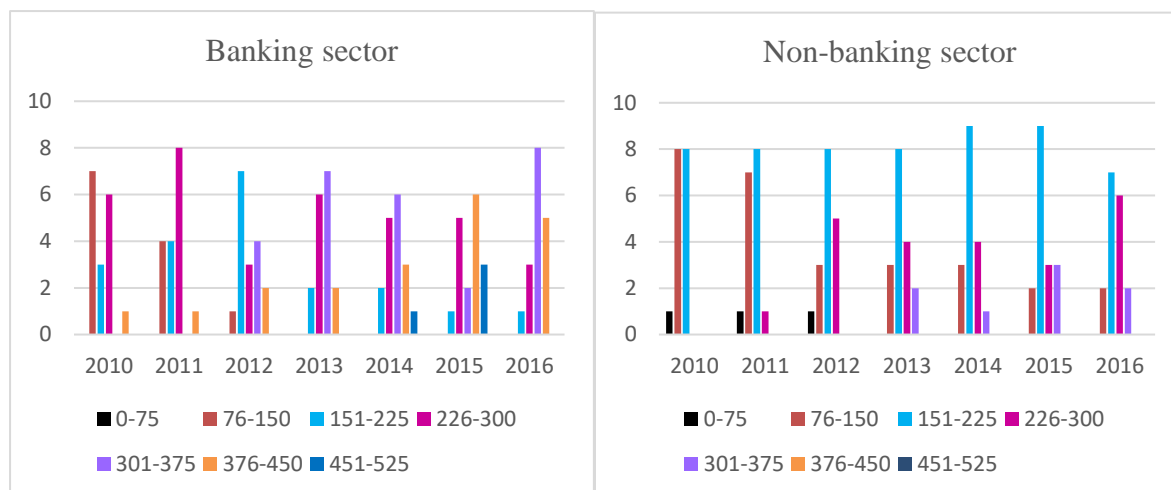


Figure 7.27: Different page limits of banking and non-banking sectors (Source: Author)

The 34 timely adopters of IR are consisting with 17 banking sector and 17 non-banking sector companies. At the outset, the only company (HT2) which produced its AR with 56 pages was found in the non-banking sector (hotel sector). The Financial Controller of HT2 shared that:

*Directors also do not want to increase than this, their opinion is also to have a concise report, so that it will be a readable one for the majority. Plus, the cost, because the quantity increases the cost (Interviewee HT2-1).*

While 12 banking sector reports were found within the page range 76-150 (only during the period 2010 to 2012), the non-banking sector reports within that range reduced showing a decreasing trend over the seven years. The majority (57) of the non-banking sector reports were found within 151-225 and majority (36) of the banking sector reports were found within 226-300 page range.

Noticeably, none of the companies were found within the two largest page range categories (375-450 and 451-525) in the non-banking sector. Thus, in the non-banking sector, the maximum report size was limited to the page range 301-375, including 8 reports and 27 reports found in the same category in the banking sector.

When summarising the above analysis related to the report size, it is obvious that the length of the corporate reports produced by the Sri Lankan listed companies does not correlate with the practice of IR in Sri Lanka. Notwithstanding the above, it is also evident that the introduction of IR and the adoption of IIRF in Sri Lanka has not greatly impact on the report size. Thus, conciseness is discussed in Chapter 11 as a challenge in Sri Lankan context.

The size of the report really matters with this IR concept. In the definition itself, the integrated report is identified as a balanced and concise report. Therefore, if a report is to be produced as an integrated report, it should be prepared in a concise manner following the guiding principle of conciseness. However, the framework has not specifically stated that the conciseness principle is assessed by the number of pages in the integrated report, resulting in arguments for and against (discussed in Chapter 11). Supportive explanation was found in Abeysekara (2013) and Ruiz-Lozano and Tirado-Valencia (2016). To achieve this principle, although Abeysekara (2013) recommended integrating different types of content (narrative, numerical figures, links) around 10 pages, due to the practical difficulty of such, Ruiz-Lozano and Tirado-Valencia (2016) showed a progressive conciseness to reduce the number of pages to under 100 with the integration of financial and non-financial information. Similar to the present study, Ruiz-Lozano and Tirado-Valencia (2016) analysed the conciseness principle by measuring the length of the report in terms of the number of pages.

## 7.10 Capital disclosures of timely adopters

Table 7.15: Multi-capital disclosures by sample companies

| Capital                    | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Total/<br>capital | %     |
|----------------------------|------|------|------|------|------|------|------|-------------------|-------|
| Financial                  | 0    | 0    | 0    | 1    | 8    | 11   | 22   | 42                | 2.9   |
| Manufactured               | 0    | 0    | 0    | 1    | 8    | 10   | 21   | 40                | 2.8   |
| Human                      | 0    | 0    | 0    | 1    | 7    | 11   | 24   | 43                | 3.0   |
| Social and<br>relationship | 0    | 0    | 0    | 1    | 7    | 11   | 23   | 42                | 2.9   |
| Intellectual               | 0    | 0    | 0    | 1    | 7    | 10   | 19   | 37                | 2.6   |
| Natural                    | 0    | 0    | 0    | 1    | 7    | 10   | 23   | 41                | 2.9   |
| Total/year                 | 0    | 0    | 0    | 6    | 44   | 63   | 132  | 245               | 17.2  |
| none                       | 204  | 204  | 204  | 198  | 160  | 141  | 72   | 1183              | 82.8  |
|                            | 204  | 204  | 204  | 204  | 204  | 204  | 204  | 1428              | 100.0 |

The above Table 7.15 shows how 34 timely adopters reported the different capitals (as in IIRF) over the seven-year period. Therefore, the total number of the different capitals amounted to 1428 (34\*7 years\*6 capitals). As in Table 7.15, none of the capitals were found during the 2010 to 2012 period, whereas only one company from the ‘bank, finance and insurance’ sector (IN5) was found reporting on all the different types of capitals in 2013 in the year-wise analysis. This company prepared its first integrated report in the financial year ended 31 December 2013, but no IR framework was found for their IR

adoption. Still, it was interesting to note that their 2013 report includes all the six capitals in their value generation model, as shown in the following illustration.

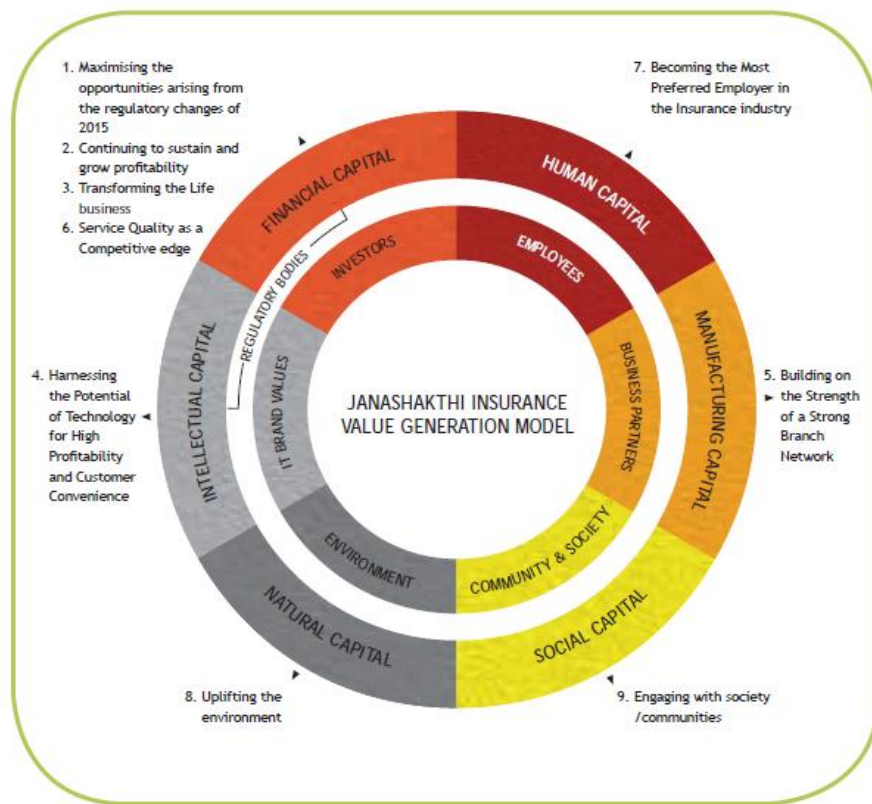


Figure 7.28: Illustration for early capital disclosures (Source: IN5 AR, 2013, p.28)

From 2014 onwards, many companies started addressing capitals in their reports. In 2014, with an increasing trend, 8 companies were found reporting on financial as well manufactured capital, while 7 were reporting on each of the remaining four capitals. The reporting trend on capitals by the timely IR adopters were further growing in 2015 and 2016, resulting in 65% reporting of the total number of capitals by the 34 companies in 2016. In terms of the capital-wise reporting, an equal percentage is revealed in terms of the total occurrences founded in each capital by the 34 companies over the seven-year period, but varying at a lower level of percentage of 2.6 to 3%. Altogether, out of the total occurrences, only 17.2% of companies were identified in reporting the six different capitals over the seven-year period. However, this situation is in confrontation to Wild and van Staden (2013) in the South African context even prior to the establishment of the IIRF, in which more than 85% of the companies reported on human, social, financial and natural, less than 50% of the companies reported on intellectual and manufactured capital.

Table 7.16: Number of capitals addressed

| <b>No. of capitals</b> | <b>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>Total</b> |
|------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|
| 6 capitals             | 0           | 0           | 0           | 1           | 6           | 9           | 17          | 33           |
| 5 capitals             | 0           | 0           | 0           | 0           | 1           | 1           | 5           | 7            |
| 4 capitals             | 0           | 0           | 0           | 0           | 0           | 1           | 0           | 1            |
| 3 capitals             | 0           | 0           | 0           | 0           | 1           | 0           | 1           | 2            |
| 2 capitals             | 0           | 0           | 0           | 0           | 0           | 0           | 1           | 1            |
| 1 capital              | 0           | 0           | 0           | 0           | 1           | 0           | 0           | 1            |
|                        | 0           | 0           | 0           | 1           | 9           | 11          | 24          | 45           |

As in Table 7.16, most (33) companies in the sample addressed the six capitals. Out of that 11 companies found in banking sector while 6 were from non-banking sector in 2016. In 2015, out of the 9 companies reporting on six capitals, 8 were from banking and only one from plantations sector, and in 2014, it was 4 and 2, respectively, for the banking and non-banking sector. Thus, the banking sector companies represented the majority of the six capitals reporting companies out of the total sample, while validating similar results with Wild and van Staden (2013). Table 7.16 further denotes that 7 companies in the sample covered five capitals, while only 5 companies covered less than five capitals in their reports during 2013 to 2016. On this ground, we corroborate the findings in Wild and van Staden (2013) affirming that the Sri Lanka listed companies are progressing towards the multiple capital concept following the incorporation of the IIRF.

Except for IIRF capital definitions, the review of the 238 reports also revealed some ‘other categories of capitals’ being reported by the companies. For an example, the following Table 7.17 exhibits how the selected companies reported on ‘other capitals’, which ranged from 1 to 8 in terms of the number of capitals.

Table 7.1 7: Number of capitals addressed

| No. of other capitals | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Total |
|-----------------------|------|------|------|------|------|------|------|-------|
| 1 other               | 0    | 0    | 0    | 1    | 0    | 0    | 0    | 1     |
| 2 other               | 0    | 0    | 0    | 0    | 1    | 1    | 0    | 2     |
| 3 other               | 1    | 1    | 1    | 2    | 2    | 1    | 1    | 9     |
| 4 other               | 0    | 0    | 0    | 1    | 1    | 0    | 0    | 2     |
| 5 other               | 0    | 0    | 0    | 1    | 1    | 0    | 0    | 2     |
| 6 other               | 0    | 0    | 0    | 2    | 3    | 2    | 1    | 8     |
| 7 other               | 0    | 1    | 1    | 1    | 5    | 5    | 4    | 17    |
| 8 other               | 0    | 0    | 0    | 0    | 2    | 3    | 1    | 6     |
|                       | 1    | 2    | 2    | 8    | 15   | 12   | 7    | 47    |

Most (17) of the companies reported on ‘7 other’ capitals, followed by ‘3 other’ by nine companies, ‘6 other capitals’ by eight and ‘8 other’ capitals by six companies. Interestingly, the study found a relationship between the reporting of ‘other capitals’ and the ARPCs of the sample companies. Out of the total companies, which reported on other capitals, the ARPC1 prepared 31 reports of 12 companies. Out of this 31, 19 reports disclosed of ‘7 other’ capitals, and ‘8 other’, ‘6 other’ and ‘5 other’ capitals frameworks were found in seven, three and two reports, respectively.

For example, even before the establishment of the IIRF, MT1 was found reporting on ‘7 other’ capitals in 2011 and 2012, where they identified financial capital with six other non-financial capitals (Figure 7.29).

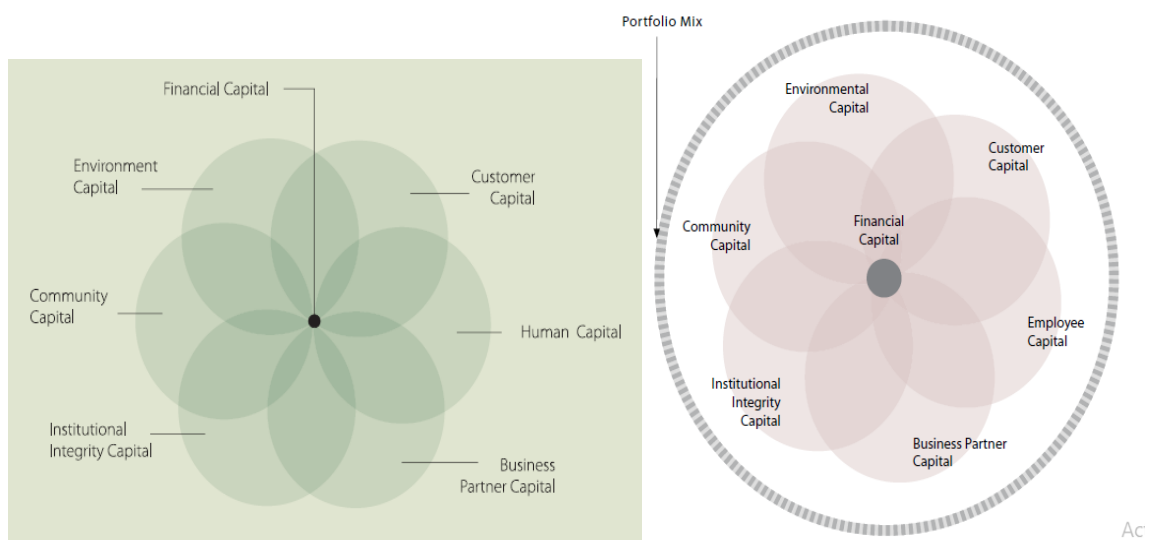


Figure 7.29: Illustrations for early capital disclosures of MT1 (Source: MT1, AR 2011, early pages; MT1, AR 2012, p.1)

Though evidence from the report review was only found that 2012 report of MT1 was prepared by ARPC1 and not the 2011 report, the respondent from ARPC1 stated that MT1's first INR, which is the 2011 report, was also produced by themselves:

*Even in MT1's first INR was based on this duality. That is before IIRC. MT1's report was based on that. That is the proof that we had it before (Interviewee ARPC1-1).*

Even after the establishment of IIRF, and during the study period of 2013 to 2016, further investigation found that reports that were designed by ARPC1 followed a similar pattern of reporting of their other capital framework in the ARs. Those reports disclosed of internal capitals and external capitals in deriving and delivering their value over the short, medium and long term. The following illustration (in Figure 7.30) provides examples of how different companies adopted a similar pattern of reporting of their seven other capitals framework which include two internal capitals (financial and institutional capitals) and five external capitals as investor, customer, employee, business partner, social and environment with the influence of ARPC1. It is evident that irrespective of the availability of the international IR framework, companies adopted a different approach, but subjective to the ARPC1's SMART IR framework. In doing so, there seems to be influence from the ARPC1 as the ARPC for these companies.

One of the members from the above ARPC shared during the interview that all these capital disclosures (capital disclosures before IIRF and other than IIRF) were due to their "Duality concept of value creation" based on their SMART IR framework:

*Basically, what we say is, this whole process as a duality, where organisations are to deliver value to the stakeholders. Now IIRC calls it capital. What we said is we have to deliver value in various forms from the organisation to the each and every stakeholder, and in turn, organisation derives value from them. Like, why are you providing a service or delivering a value to the customer, in the hope of deriving something more for you and that that excess that you derive over and above the cost of delivering that value is your profit. Our methodology was based on that duality (Interviewee ARPC1-1).*

He further stated that the choice between IIRF capital disclosures and SMART IR capital disclosures depends on their client's requirements:

*Depending on the client requirement, we use elements from everything. If you bring in the duality concept, then the [ARPC1] methodology is there. If you purely go by the IIRC capitals, the IIRF (ARPC1-1).*

### The Value Creation Process

This discussion covers the key elements of Nawaloka's business model, where the various forms of capital are transformed through the Company's business activities to create value over time. Nawaloka delivers value, both financial and non-financial, to its key stakeholders in the context of the economic, social and environmental aspects within which it operates. The stakeholders are of value to Nawaloka and we ensure they grow and prosper over time. As stores of value, they constitute our stakeholder capital, and are external to Nawaloka. Regarded as external capital they comprise mainly of investor capital, customer capital, employee capital and social and environmental capital.

Nawaloka in turn derives value through the dynamic interaction between its external capital as well as its own internal capital to drive future earnings. The capital internal to Nawaloka comprises financial capital and institutional capital. The latter includes intellectual property, knowledge, systems, procedures, brand value, corporate culture, business ethics, integrity and the like.

Source: HC1, 2014 AR,

## The Duality in Value Creation

This segment of our report highlights the integral aspect of integrated reporting, where The Lighthouse Hotel PLC's business model exemplifies the process that transforms the various forms of capital through its business activities to create value over time.

The Lighthouse Hotel PLC delivers value, both financial and non-financial, to its key stakeholders in the context of economic, social and environmental aspects within which it operates. These same stakeholders are of value to us, and they are nurtured and developed over a period of time. As stores of value, they constitute our stakeholder capital, and are external to The Lighthouse Hotel PLC; the key components being investor capital, customer capital, employee capital, social capital and environmental capital.

The Lighthouse Hotel PLC in turn derives value through the dynamic interaction between the external capital as well as its own internal capital to drive future earnings. The capital internal to The Lighthouse Hotel PLC comprises financial capital and institutional capital. The latter includes intellectual property, knowledge, systems, procedures, brand value, corporate culture, business ethics, integrity and the like.

Source: HT1, 2014 AR, p.36

Value creation is a dual process which encompasses delivering value to and deriving value from stakeholders.

Delivering value involves creating financial and non-financial value for the stakeholders in the context of economic, social and environmental aspects. This process leads to external capital formation in the form of investor capital, customer capital, human capital, social capital and environmental capital.

Deriving value on the other hand involves creating value for the Bank through interactions between the organisation and the external capitals. The internal capital comprises of financial capital and institutional capital.

Source: B6, 2014 AR, p.43

Access Engineering delivers value to its stakeholders in the context of the economic, social and environmental aspects in which it operates. Based on materiality, we engage with our stakeholders, build long term and mutually beneficial relationships and nurture them, as they are of value to us in driving future earnings. As stores of value, they constitute our stakeholder capital that are external to the Company. The key constituents being our investors, customers, business partners, employees and society and environment.

In turn we derive value through the dynamic interaction between our external capital and our own internal capital over the short, medium and long term. The capital internal to AEL comprises financial capital and institutional capital. The latter includes integrity and business ethics, corporate culture, knowledge and expertise, intellectual capital including patents and copyrights, our capacity to innovate, brand image, reputation and the like.

Source: CN1, 2014 AR, p.62

### ➔ Capital Formation

Value creation leads to capital formation. As a store of value, capital takes on a broader meaning in integrated reporting, and constitutes the resources and relationships used and affected by the business.

We classify capital that is owned by the business as being 'internal' capital, while capital that is not owned as 'external' capital. Ownership is irrelevant here, as the business has access to and uses all forms of its capital to create sustainable value for itself and its stakeholders.

Our internal capital comprises financial capital and institutional capital. The former is what gets reported in the Financial Statements, while the latter are intangibles such as integrity, trust, specialised knowledge and brand image.

Our external forms of capital thus centre on key stakeholders and comprise investor capital, customer capital, business partner capital, employee capital and social & environmental capital.

Source: TLC1, 2015 AR, p.52

### Value Creation

Hayleys delivers value to its stakeholders (page 50) in the context of its key goals and strategies (page 46) and the socio-economic environment in which it operates. Based on materiality (page 29) we engage with these stakeholders, build relationships and nurture them as they are of value to us in driving future earnings. As stores of value, they constitute our stakeholder capital that are external to Hayleys, the key constituents being our investors, customers, business partners, employees and the society and environment in which we operate.

In turn we derive value through the dynamic interaction between our external capital and our own internal capital over the short, medium and long term. The capital internal to Hayleys comprises financial capital and institutional capital. The latter includes integrity and business ethics, corporate culture, accumulated knowledge and expertise, intellectual capital including patents and copyrights, our capacity to innovate, brand image and reputation.

Source: DH1, 2014 AR, p.48

Figure7.30: Illustration for "other capital" disclosures of ARPC1

While some companies extended the '7 other' capital framework to '8 other' concerning the social and environment capital as two different capitals, social or community capital and the environmental capital, some other companies considered the laws, statutes and



regulatory environment as the regulatory capital (B4 ARs of 2014, p.45 & 2015, p.44; LF3 AR of 2014, content page; B5 AR of 2013, p.27). Figure 7.31 provides the evidence that some companies did not follow a consistent pattern in their capital formation.

| MANAGEMENT DISCUSSION AND ANALYSIS |    | ● — Management discussion and analysis |     |
|------------------------------------|----|--|-----|
| DERIVING VALUE                     |    | Deriving value                         |     |
| Financial Capital                  | 32 | Financial capital                      | 54  |
| Institutional Capital              | 41 | Institutional capital                  | 74  |
| DELIVERING VALUE                   |    | Delivering value                       |     |
| Investor Capital                   | 44 | Investor capital                       | 78  |
| Customer Capital                   | 48 | Customer capital                       | 88  |
| Employee Capital                   | 57 | Employee capital                       | 116 |
| Business Partner Capital           | 65 | Business partner capital               | 136 |
| Legislator and Regulator Capital   | 66 | Social capital                         | 140 |
| Social and Environmental Capital   | 67 | Environmental capital                  | 148 |

Source: LF3, 2014 AR, content page

Source: LF3, 2015AR, content page

Figure 7.31: Illustrations for consistent capital disclosures over the years

In a similar line, it was found that B9 adopted six other capitals limited to only four external capitals (excluding business partner capital), while PL1 limited to only three external capitals (excluding both business partner and investor capitals) (see Figure 7.32).

| The Dual Aspects of Value Creation  | THE DUAL ASPECTS OF VALUE CREATION   |
|---|--|
| <p>The above discussion covered the key elements of the Bank's business model, which is essentially a process that transforms the various forms of capital through business activities to create value over time.</p> <p>The Bank delivers value, both financial and non-financial, to its key stakeholders in the context of the economic, social and environmental aspects within which it operates. These same stakeholders are of value to us, and they are nurtured and developed over a period of time. As stores of value, they constitute our stakeholder capital, and are external to the Bank; the key components being investor capital, customer capital, employee capital and social &amp; environmental capital.</p> <p>The Bank in turn derives value through the dynamic interaction between the external capital as well as its own internal capital to drive future earnings. The capital internal to the Bank comprises financial capital and institutional capital. The latter includes intellectual property, knowledge, systems, procedures, brand value, corporate culture, business ethics, integrity and the like.</p> | <p>This discussion covers the key elements of KVPL's business model, where the various forms of capital are transformed through the Company's business activities to create value over time.</p> <p>KVPL delivers value, both financial and non-financial, to its key stakeholders in the context of the economic, social and environmental aspects within which it operates. The stakeholders are of value to KVPL and we ensure they grow and prosper over time. As stores of value, they constitute our stakeholder capital, and are external to KVPL. Regarded as external capital they comprise mainly of customer capital, employee capital and social and environmental capital.</p> <p>KVPL in turn derives value through the dynamic interaction between the external capital as well as its own internal capital to drive future earnings. The capital internal to KVPL comprises financial capital and institutional capital. The latter includes intellectual property, knowledge, systems, procedures, brand value, corporate culture, business ethics, integrity and the like.</p> |

Source: B9, AR of 2013, p.27

Source: PL1, AR of 2013, p.48

Figure 7.32: Inter-company illustrations for '6 other' and '5 other' capitals by ARPC1

However, it was clearly visible that companies which used the ARPC1 as their ARPC followed a similar set of verdicts in inter-company (Figure 7.32) and intra-company (Figure 7.33) annual reports in terms of capital disclosures.

## Value Creation and Capital Formation

Annual Report 2015 — Sri Lanka Telecom PLC

Stewardship  
→ **Business Model**  
Management Discussion and Analysis  
Leadership and Recognition  
Financial Reports  
Supplementary Information

### → The Dual Aspects of Value Creation

We take a broad view of value creation. It is a two-way process, as the ability of our telecom business (comprising SLT and Mobitel) to create sustainable value for itself is also related to the value it creates for its stakeholders. Thus we distinguish between our business and its stakeholders, identify which ones are important to our business, and understand why our business is important to them. The materiality matrix discussed previously underscores this process.

### → Capital Formation

Value creation leads to capital formation. As a store of value, capital takes on a broader meaning in integrated reporting, and constitutes the resources and relationships used and affected by the business.

We classify capital that is owned by the business as being 'internal' capital, while capital that is not owned as 'external' capital. Ownership is irrelevant here, as the business has access to and uses all forms of its capital to create sustainable value for itself and its stakeholders.

Our internal capital comprises financial capital and institutional capital. The former is what gets reported in the Financial Statements, while the latter are intangibles such as integrity, trust, specialised knowledge and brand image.

Our external forms of capital thus centre on key stakeholders and comprise investor capital, customer capital, business partner capital, employee capital and social & environmental capital.

Source: TLC1, 2015 AR, p.52

Sri Lanka Telecom PLC — Annual Report 2016

Stewardship  
Messages  
**Business Model** ←  
Management Discussion and Analysis  
Empowering Digital Lifestyles  
Financial Reports  
Supplementary Information

## Value Creation and Capital Formation

### → The Dual Aspects of Value Creation

Value creation is a reciprocal process. It is through creating sustainable value for our stakeholders that we are able to create value for our business. Each year, we identify material aspects that may be of mutual interest or concern. This is exemplified in the materiality matrix that was discussed previously.

### → Capital Formation

The process of value creation then leads to the establishment of capital. Capital stores value, and in the milieu of integrated reporting, references the resources and relationships that influence our operations.

Capital that is owned by the business is termed 'internal' and that which falls outside of this domain is titled 'external'. The business has holistic access to and utilises all relevant capitals to create sustainable and reciprocal value.

Internal capital consists of financial and institutional capital. Financial capital is discussed in the Financial Statements. Institutional capital comprises intangible assets such as integrity, trust and brand image.

External forms of capital focus on key stakeholders. They are sub-divided as investor, customer, business partner, employee and social and environmental capitals.

Source: TLC1, 2016 AR, p.61

Figure 7.33: Intra-company illustrations for '7 other' capitals by ARPC1

An exception for this is found in LF2's capital disclosures, where they grouped their capital as financial and non-financial capital (human resources, IT, premises and equipment, know-how, other) even though their ARPC is ARPC1 (see Figure 7.34).

#### PROCESS OF VALUE CREATION AT MI

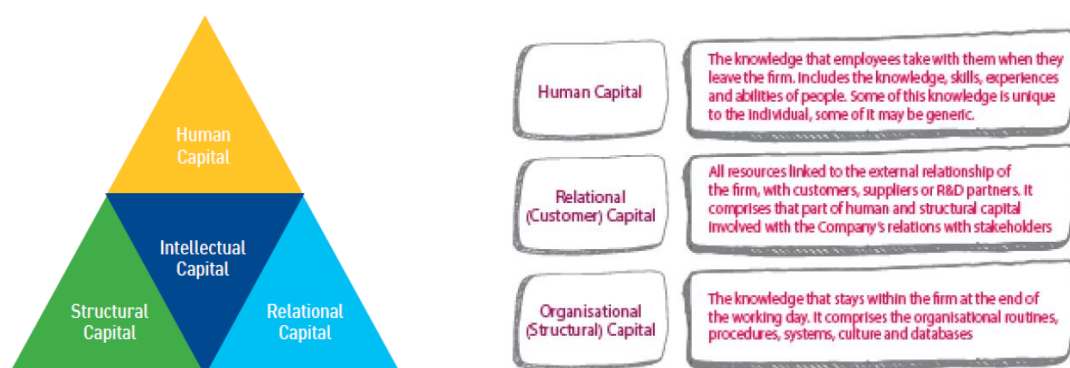
Based on the vision, mission and internal value system that we uphold, we strive in creating triple bottom line value that encompasses commercial profit making aspirations with sustainable ideologies of economic, social and environmental expectations. We maximised available resources which consist both financial capital and non-financial capital in a productive way, to enhance stakeholder value annually. In doing so, we embrace a strong governance structure that inculcates prudent management of operations, with an ethical and transparent upbringing. We have inbuilt systems and procedures to capture potential risk associated with our form of business, so that it is managed appropriately to minimise losses.

We adopt an exemplary business model that compliments a structured strategic approach in fulfilling organisational objectives which eventually enhances overall value. Foremost, we have instilled an effective operational process that enables us to derive optimum benefit from the capital inputs that go into business. For us, apart from financial capital being the key resource, our human resources, business premises and equipment and our know how in the financing field are the other key capital that form the base for our inputs.

Activate Windows  
Go to Settings to activate Windows

Figure 7.34: Illustration for financial and non-financial capital disclosures by ARPC1 (Source: LF2 AR, 2014, p.13)

Further examination is carried out by the present study in order to find whether there is a similar pattern of reporting among the reports designed by ARPC2. The commonly reported capital structure here is related to the '3 other' forms of capital, which is categorised under the main theme 'intellectual capital'. These '3 other' capitals are named as human, structural and relational capital (Figure 7.35).

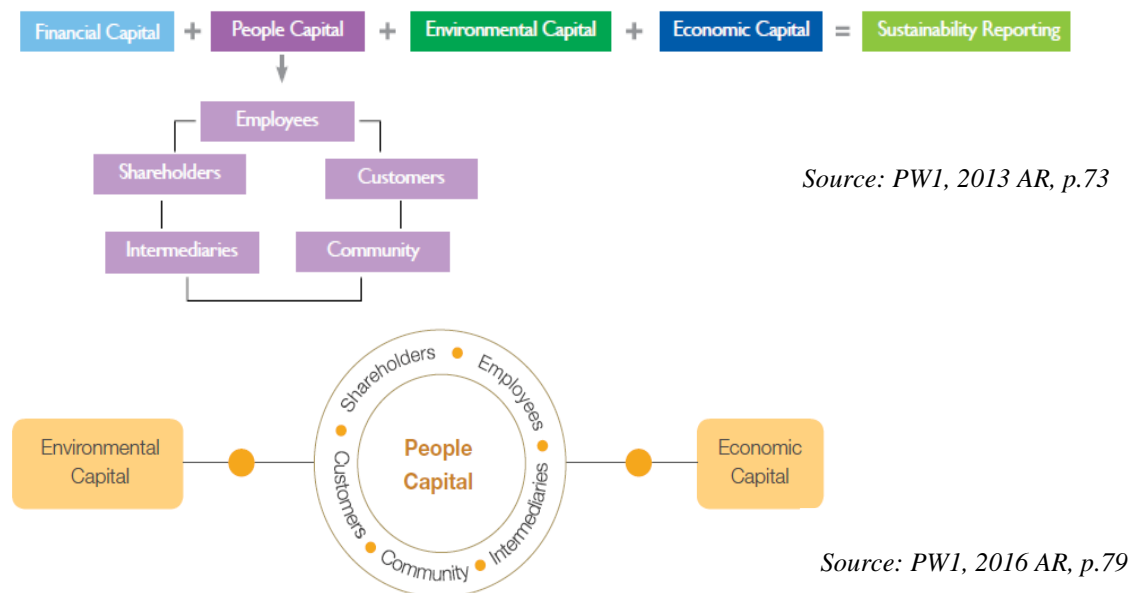


Source: IN4, 2013 AR, p.68

Source: IN2, 2014 AR, p.97

Figure 7.35: Illustrations for capital disclosures by ARPC2

Despite this similarity, reports designed by ARPC2 disclosed different capital definitions. For an example, in IN2, beside their IR adoption in 2013, the 2013 report identified intellectual capital as a combination of external, internal and human capital (p.188), whereas the 2014 report identified the three components of intellectual capital as human, relational and structural capital (p.97) showing the differences in capital formation in intra-company reports. On the other hand, in IN1, the ‘3 other’ capitals were defined as customer, human and business partner capital (IN1, ARs of 2014 & 2015). Disparities were found in PW1’s capital disclosures with ‘4 other’ capitals in the 2013 report (prior to their adoption of IR in 2014) and ‘3 other’ capitals with their IR adoption in 2014 and continued the same until 2016 (see **Figure 7.36**).



*Figure 7.36: Disparities in capital disclosures in PW1*

Substantially, findings revealed that way before the IR adoption, the three components of intellectual capital (external, internal and human) were disclosed by IN2 from 2010. During that period from 2010 to 2013, the ARPC was ARPC3.

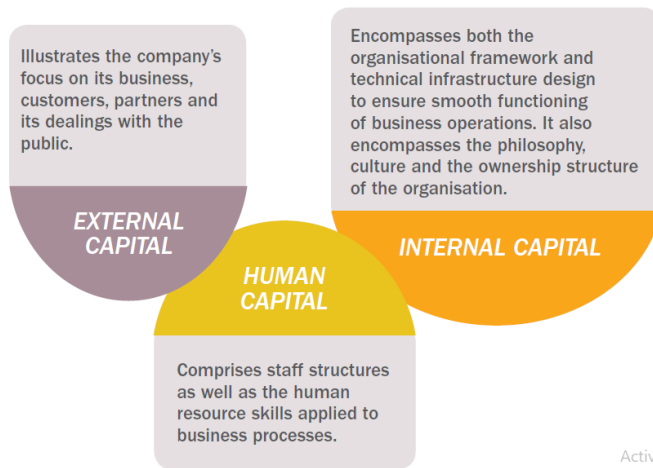


Figure 7.37: Components in capital disclosures in IN2 from 2010 to 2013 by ARPC3 (Source: IN2 AR 2013)

Unlike ARPC1, the study could not justify any relationship between the capital formation and other ARPCs. The reason could be justified as the availability of the SMART IR framework by ARPC1 in which they focused on the duality concept of value creation and capital formation.

Notwithstanding the above, the present study extended the capital analysis to determine the extent of coverage of each of capital (which was highlighted by Wild and van Staden in (2013) as a future research in their study) by the timely adopters of IR in Sri Lanka in Chapter 10. Also, challenges faced by different IR actors in terms of capital disclosures are discussed in Chapter 11.

### 7.11 Value creation (VC) and value creation model (VCM) of IR sample

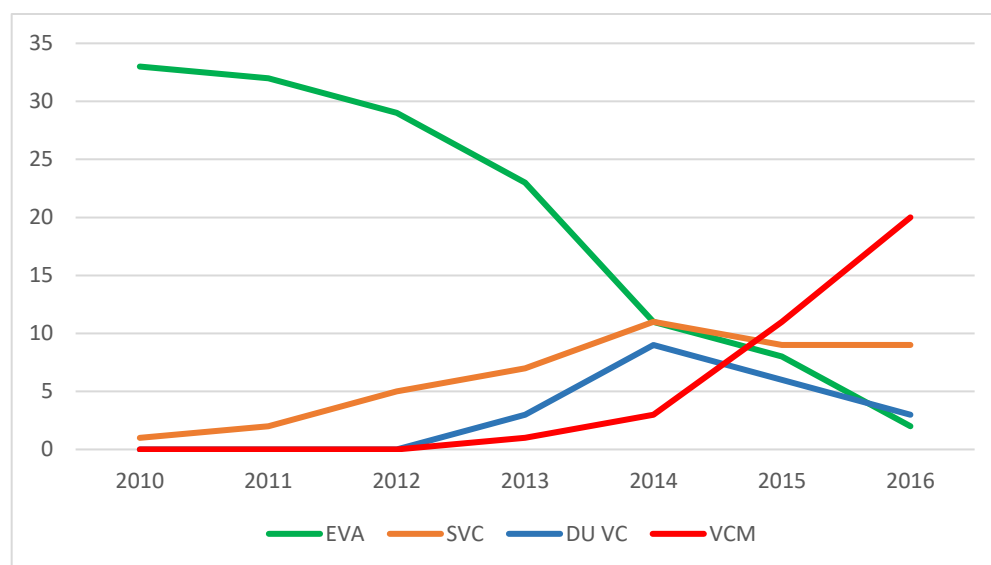


Figure 7.38: Value propositions of timely IR adopters over seven-years (Source: Author)

In 2010, Figure 7.38 illustrates that out of 34 companies, 33 disclosed of ‘Economic Value Addition (EVA)’, except one reported of ‘Sustainability Value Creation (SVC)’. Following a declining trend, the EVA reported companies decreased to 2 in 2016. On the other side, such less focus on EVA concept shifted companies’ attention towards the SVC and DU VC (Duality of VC) concepts until 2014. From 2014 onwards, with the incorporation of the IIRF, it is noticeable that the number of IR adopters who used the VCM as explained in the framework increased to 20 in 2016 (58.8%) from 3 in 2014 (8.8%).

Such increase in reporting of the VC concept is also evidenced in an international context. For example, by 2016, 25% of listed organisations in ASX 200 had also focused their reporting on value creation for shareholders and/ or other stakeholders and not just past financial earnings.

The extent of the use of the business model disclosures as described by the IIRF (IIRC, 2013b) by the sample companies is illustrated in Chapter 10 and challenges in the BM concept are discussed in Chapter 11.

## **7.12 Chapter summary**

This chapter offered empirical findings of trends in IR adoption in the Sri Lankan context. The journey of discovery towards integrated reporting is observed within the group of 34 timely adopters of IR that were under review. Certain clear trends of IR were observed, namely, an increase in year-wise and sector-wise adoption of IR, mean of corporate report identification in the front page of reports, the emergence of IIRF followers, the basis for IR adoption (whether based on IR framework, other framework or no framework), the link between IR and sustainability reporting, comparable adherence to GRI guidelines, the audit financials and an increase in external assurance of non-financial information of corporate reports, the tendency towards the use of annual report producing companies, analysis of length of reviewed reports, and evolution of capital, value creation and value creation model disclosures.

Having identified the growing trend for IR, the next chapter provides an answer to the question of what caused such momentum for IR, with an in-depth understanding of the external and internal driving forces which led Sri Lankan listed companies to embrace IR.

## Chapter 08

### Drivers of IR in Sri Lanka

#### 8.1 Chapter introduction

This chapter addresses the second research question of the study exploring why public listed companies in Sri Lanka are motivated to adopt IR. In so doing, the present study also addresses a research gap identified in Jensen and Berg (2012), by answering what motivates or what drives companies to voluntarily publish integrated reports in Sri Lanka. Based on the interview data, the drivers which motivated companies to adopt IR are classified into two, as external and internal drivers. Further, the drivers of IR are described using the institutional theoretical lens through institutional isomorphism and institutional isopraxis (as discussed in Chapter 4).

In section 8.2, the external drivers of IR are examined through the lens of institutional isomorphism. The internal drivers of IR are described based on the institutional isopraxis in Section 8.3. Section 8.4 concludes the chapter.



*Figure: 8.1 External and internal drivers of IR (Source: Author)*

#### 8.2 External drivers of IR and institutional isomorphism

The interview data reveal that there are several external factors which persuaded the Sri Lankan companies to voluntarily adopt IR. Influence from IIRC or IRCSL, influence through the organisational adoption of SR, influence from parent company, global trend, corporate image and recognition, influence from stakeholders, IR awards, competition, influence from auditors, influence from professional organisations, and influence from ARPCs (annual report producing companies) are identified as the external drivers of adoption of IR in Sri Lanka.

The concept that best captures the process of homogenisation is isomorphism (DiMaggio & Powell, 1983). The concept of institutional isomorphism is used as a tool to understand the external drivers which led the adoption of IR by the sample companies through three mechanisms: coercive isomorphism; mimetic isomorphism; and normative isomorphism.

### **8.2.1 Coercive isomorphism**

Coercive isomorphism results from both formal and informal pressures exerted on organisations by other organisations upon which they are dependent (DiMaggio & Powell, 1983). They further claimed that such pressures may be felt as force, as persuasion, or as invitations to join in collusion. Thus, influence from IIRC or IRC SL, influence through the organisational adoption of SR, influence from parent company and influence from stakeholders have been categorised as coercive pressures which persuaded the IR adoption in Sri Lanka.

#### **8.2.1.1 Influence from IIRC**

The IIRC, as the global regulatory body and as the global coalition for IR, promotes communication about value creation as the next step in the evolution of corporate reporting and exerts coercive pressure by encouraging organisations around the world to adopt IR, using the established IIRC Framework. Out of the 100 (approximately) participants who participated in the IIRC pilot programme in 2011, there was only one Sri Lankan company which used the draft framework to create their own integrated report and, based on their experience, provided feedback for releasing the framework. One of the interviewees from that company states that:

*Actually looking back we have benefitted tremendously from being a pilot programme company. We have been thought leaders, and it has given us a lot of opportunity. But going forward, I think we want to take the same momentum forward, at least for few other years, until we are completely on our own. By participating in IIRC pilot programme, conferences, and webinars and once you listened to what is being discussed, they trigger a lot of thought processes. They give us new ideas, parts to think about and so on. And we have a lot of technical material that we get from the IIRC, which we really appreciate. So there are lot of benefits (Interviewee MT1-1).*

*When you look at the IIRC guideline, you don't have to reinvent the wheel. It's a fairly done small document. You read, understand, digest and do it and see whether there are any short comes (Interviewee MT1-1).*



The same interviewee during the panel discussion at CASL also added:

*Integrated report is the final communication and that has to be the end product of what happens. What happens was earlier expectation of reporting was very different. People were looking at financials to make decisions. But, behind the scene, people were not thinking of putting these into external communication. For example, what we do with our human resources was all that is there. The idea that formally brought these things come in an integrated reporting by IIRC until that is influenced by and it was a voluntary disclosure (Interviewee MT1-1).*

This is an example of how the IIRC inspires global organisations to move towards IR through coercive isomorphism through the pilot programme and other initiatives around the world regarding IR.

Further, the following extracts also provide evidence on how IIRC and its IIRF have resulted in coercive influence to adopt IR among the other interviewees.

*We searched the IIRC website and the model (Interviewee IN1-2).*

*I subscribe to the IIRC newsletter (Interviewee ARW1-1).*

*That is why IIRC is coming up with several separate individual publications to address the areas that people might not understand (MT1-2).*

Based on the interview data, no pressure is identified from the IRC SL, though it has been established as the first Integrated Reporting Council in all of Asia. Under the patronage, guidance and support of the IIRC, the IRC SL was launched by the Council of CASL. That could be the reason why most of the interview participants from the sample companies were uncertain about an IR Council in Sri Lanka, but enquiring and linking it back to the CASL. The following provide examples for such uncertainty.

*Is it handled by CASL? Integrated Reporting Council? It must be CASL? I do not know in detail. But I am aware that CASL does this. I mean involved in this, but we have not engaged or in contact with it [IRC SL] (Interviewee HT1-1).*

*They [IRC SL] really did not come to us (Interviewee DH3-3).*

*Actually, I heard that very recently. Earlier I didn't know that, But I knew that the institute guideline is there for annual reports (PW1-3).*

While the pressure from the IIRC appears to be of coercive isomorphism, a subtle pressure is identified from IRC SL through the CASL. However, the influence from CASL is discussed in normative isomorphism in section 8.2.3.

### 8.2.1.2 Influence through the organisational adoption of SR

In the analysis of the IR agenda in Sri Lanka, it was apparent that the sustainability reporting (SR) practices by the Sri Lankan companies influenced Sri Lankan companies to adopt IR. The Prince's Accounting for Sustainability Project (A4S) and the GRI were the two main affiliated bodies which contributed to the formation of IIRC on 2<sup>nd</sup> August 2010. The GRI framework sets out the principles and indicators that organisations can use to measure and report their economic, environmental and social performance. As coercive pressures arise from IIRC as a regulatory force, various other organisations that support IIRC (such as GRI, A4S as above) are also considered sources of coercive pressures. In Matten and Moon (2008), GRI is specified as a form of coercive isomorphism.

Some interviewees (one early adopter, one timely adopter, one late adopter and an AR writer) stated that by being on SR practices motivated them to go for IR:

*I studied others' annual reports, international annual reports and then I came to know about sustainability reporting which is something developed in international scenario. I brought in to here. First initiation was in somewhere in 2006, where I wrote something about sustainability and I did 2007 again 2008 also then 2009 I did a detailed one (Interviewee B1-1).*

*So, after privatisation in 1996, we had to start doing annual reports, because we were listed in CSE. So, after couple of years, actually, we were closely study on the reporting formats and sustainability as a concept. It began in worldwide, then everybody talks about sustainability and triple bottom line and so on. So, by the time we also adopted the financial report, and sustainability aspect of the each and every pillar, like economical aspect to nature, environment and society. So, that's the start. So, that's how we came into IR (Interviewee TLC1-5).*

*In a way it would have, because, these separate reports were done on solo basis. In sustainability, you have disclosures on compliance, the governance is also on compliance, So I have set of disclosures to made on compliance. That is one thing and the other thing is I have been lobbying with different people who are writing need to have a connectivity between these reports. Otherwise we are repeating the same thing over and over again. So I have been telling this sometime back this IR came in. Once this IR came in, it actually addressed my concerns (Interviewee B3-3).*

*I think the companies did good sustainability reporting went very well into the integrated reporting (Interviewee ARW1-1).*

Two interview participants mentioned that the SR practices of the pilot programme participant has opened up the path for them to step into IR and play a leading role in IR:

*One is I must say MTI is playing a very leading role, they have done a fantastic job. But in Sri Lanka ACCA was the first one to go into sustainability and MTI*

*was the first few companies that worked with ACCA. So they believe in sustainability reporting not for any other reason, may be that it supports their business, in tourism, in food production. So there is definitely an impact of sustainability on IR (Interviewee REG1-1).*

*Because if you take MT1, MT1 became winners, DH2 used to win. Because they improved their systems. So those companies that had really good sustainability reporting systems could successfully go into IR (Interviewee ARW1-1).*

In a similar study done in Sri Lanka, one notable feature of the early adopters of IR in Sri Lanka is that they had been following SR for a period of time and had been regarded as the sustainability leaders in their respective industries, both in terms of practice and reporting (Gunaratne & Senaratne, 2017). They further claimed that the concept of IR was not a stranger to those companies due to the availability of SR and having seen the importance of sustainability reporting of their businesses.

Two participants shared their views for the overall growing trend to report on IR by Sri Lankan companies. As they said, it is because Sri Lankan companies have been reporting on sustainability:

*You know why? In Sri Lanka, it first started with SR. We have fairly matured in all these Sustainability reports... The maturity I saw in SR (Interviewee MT1-1).*

*Sri Lanka is much better than some countries in this progress on sustainability. Better than Australia even (Interviewee REG1-1).*

In this way, SR or the GRI reporting practices of the Sri Lanka companies caused them to adopt IR through coercive pressures. Eccles and Serafeim in (2011) stated that of those 1,861 companies using the GRI's G3 Guidelines, 237 are self-declared integrated reports. As noted in literature, social and environmental reporting has a long history (Guthrie & Parker, 1989). Although, these sustainability disclosures were conveyed in corporate annual financial reports initially, over the past two decades, these disclosures have increasingly been made in separate reports (Bini & Bellucci, 2019; de Villiers et al., 2014). In contrast to the earlier sustainability disclosure made within annual reports, in which social, environmental and governance information was not integrated with financial information, there have been moves to recombine these sustainability disclosures with financial disclosures in single reports (Eccles & Krzus, 2010) by integrating social, environmental, financial and governance information (Eccles & Krzus, 2010; Hopwood, Unerman, & Fries 2010). The resulting practices are poised to represent a momentum in

mainstream corporate reporting (Adams & Simnett, 2011) and have come to be known as IR (de Villiers et al., 2014; Eccles & Krzus, 2010).

One of the participants from early adopters expressed the view as:

*For sustainability, we have a dedicated person. A person who spearheads with the group. We have sustainability champions appointed at each sector...therefore this IR area is something that came with the SR focus, where sustainability was a key area in our reporting (Interviewee DH1-1).*

Further, Roger (2003) highlighted this as the perceived compatibility of the new innovation (which is IR), to the existing systems (which is SR) which has favourably influenced the adoption of IR. This is further described in Stubbs and Higgins (2014) who suggested that organisations have some form of sustainability committees in place when following SR or IR.

Therefore, based on the interview data, it was evident that coercive pressure was exerted through IIRC and other supporting organisations, such as GRI, on the sample companies' decision to step into IR.

#### **8.2.1.3 Influence from parent company**

The parent company pressure is recognised under coercive isomorphism. As conglomerate corporations increase in size and scope, standard performance criteria are not necessarily imposed on subsidiaries, but it is common for subsidiaries to be subject to standardised reporting mechanisms (DiMaggio & Powell, 1983). In a conglomerate or a diversified holding company, subsidiaries adopt accounting practices, performance evaluations, and budgetary plans that are compatible with the policies of the parent corporation. In this way the parent company coerces the homogenisation of organisational models through direct authority relationships (DiMaggio & Powell, 1983).

Interviewees from two plantation companies which are grouped under a diversified holding shared that their company's move towards IR is due to the influence of the parent company.

*In 2013, long ago. That is also a part of DH1 management. We have to follow our group trend also. DH1s is going towards IR, after considering all these [PL1] is also going for IR...DH1 wanted go for IR as a part of that it came to us also (Interviewee PL1-2).*

*Once DH1 moved into IR, if you take sustainability or anything we have to keep reporting in every month of achievements, goals or targets or whatever to align*

*with this IR. They collect information and data for their reporting. They can't do the annual report until we finish. All our figures have to go there for them to consolidate everything as a group (Interviewee PL1-1).*

*One is it's a requirement and expectation of the listed companies in the conglomerates like [ DH1] they expect us to be relevant and up to date with the latest reporting styles. That is how we got into IR (Interviewee PL1&2-1).*

Large corporations can have a similar impact on their subsidiaries (DiMaggio & Powell, 1983). The same idea was shared by one of the ARPC participants also:

*There are some companies who wanted to do integrated reporting actually function as an arm of another company, if it is a listed company, it's a back-end arm of another listed company. All their work happens with that other listed company, they become their supplier (Interviewee ARPC2-1).*

Moreover, the pressure from the parent (group) to follow the IR mechanism is also identified in Gunaratne and Senaratne (2017) as another instance where this coercive perspective is applicable in adoption of IR in Sri Lanka.

#### **8.2.1.4 Influence from stakeholders**

Another coercive force that encourages the voluntary adoption of IR is pressure from investors. An organisation can be coerced by its influential or powerful shareholders of a wider group of stakeholders into adopting reporting practices (Eccles & Serafeim, 2011).

IR bridges investor-company information gaps (Stubbs et al., 2014). From the point of view of three participants (from two timely adopters and one ARPC) also, the motive behind the IR adoption is the investor pressure.

*When we discuss with our foreign investors and when we discuss with our financial institutions, they always ask for lot of information. And that time we did not have that information readily available. Information from the investors' perspective is there in IR. Then we decided that we should go for IR (Interviewee PW1-1).*

*As a reputed company in the country and as the pioneer of the construction industry, we thought to have an integrated report for all our stakeholders. That is why we decided to have IR (Interviewee CN1-1).*

*I guess something that triggered this is, also because the investors started looking at companies differently. They needed more information, they needed different information, they needed certain, specific information, so these standards now obviously give out that information that investors need, so they can invest with a much more better knowledge of the company (Interviewee ARPC 3-1).*

In the public markets, investors that own a significant proportion of a company's stock can put pressure on the company to implement IR in various ways, such as raising the issue at the Annual General Meeting or even getting the topic on the proxy statement (Eccles & Serafeim, 2011). They further detailed that large institutional investors in their role can encourage companies to provide them integrated reports at the portfolio company level.

Although it seems that a wider group of stakeholders can influence companies to adopt IR (Eccles & Serafeim, 2011), through interview data it appeared that only shareholders (investors) and institutional investors apply pressure on two companies (PW1 and CN1) to board on IR. That means only two interviewees (out of 62) indicated that their institutional practices changed in response to the pressure from their shareholders and institutional investors upon whom those organisations are dependent.

Despite the above three participants, other participants' views on the influence of other stakeholders on IR are as follows:

*Awareness among the stakeholders about the IR is very less at this time... If you look at customers they are not very much bothered about this, but what they say is if they have a better service they are happy. But I think when it comes to a large shareholder, they look at it... we have never see questions coming from any of other stakeholder though frankly speaking (Interviewee B3-2).*

*No any investor pressure for us, absolutely not. Other than that nobody have questioned about the annual report. That's how the ordinary business structure established in this country (Interviewee TLC1-4).*

Two interviewees from two ARPCs also shared similar views:

*We haven't actually engaged actively with the stakeholders and ask what would you like to see in the annual report and what do you need and we haven't done that actively. No (Interviewee ARPC3-1).*

*No, we do not talk to any other stakeholder (Interviewee ARPC1-1).*

A common complaint of companies practicing integrated reporting is general investor indifference (Eccles & Serafeim, 2011). Furthermore, they posed questions as to why prepare an integrated report if this will have no impact on investors. However, after the adoption of IR, IR has been a benefit for the organisations to provide the information required by the diverse stakeholders and IR helped them to gain new investments. For example, study participants shared the following:

*We have our clients in European countries. Then when they visited us, we had to do lot of presentation and now it is easy to get that information from our annual report and before they come here, they study everything, they know about us. That two-way communication is easy for us after using the IR systems (CN1-1).*

*IR gives transparent information about entire group. If we did not have IR, there would be lot of work need to be done out of this scope. For an example, when we discuss with the financial institutions to negotiate financial facility, or when we discuss with a new investor, most of the information what they want is already in our report (PW1-1).*

*IR is not just a document for shareholders, we gain lot of advantages when we go into business ties with partners (TLC1-5).*

*When you spell out the strategy the investors will get confidence that they are following a right strategy, otherwise we are not able to bring in any investments. Because any knowledgeable investor will look at that and understand what our strengths are, how strength our selling is, they will look at that (PL3-1).*

Although there is no legal requirement to produce integrated reports in Sri Lanka, the coercive isomorphism is observed through the influence from IIRC and IIRF, influence through the organisational adoption of SR (IIRC supporting organisations), influence from parent company and influence from shareholders and institutional investors, when identifying the motives behind the IR adoption among the sample companies in Sri Lanka.

Our findings are contrary to what Jensen and Berg (2012) found as owing to the newness of IR, the impact of related rules, norms or laws is extraordinarily low. During their study time, there was not even a voluntarily useable framework. Thus, the impact of coercive isomorphism on the IR is considered to be negligible in their study. On the other hand, the present study results are also in contrast to Gunarathne and Senaratne (2017) who stated that the impact of forced selection from a regulatory perspective of IR is not yet important. However, the present findings are in conformity with Gunarathne and Senaratne (2017), where they claimed that forced selection could stem from pressure from the parent company.

### **8.2.2 Mimetic isomorphism**

In contrast to coercive isomorphism, another important external force of voluntary adoption of IR by Sri Lankan listed companies is mimicking other organisations because they see the benefits in doing so (DiMaggio & Powell, 1983; Eccles & Serafeim, 2011). The competitive pressure, bandwagon effect as looking at what IR role model or IR leading companies do, global trend, corporate image and recognition are suggested to have mimetic pressure among the selected companies in Sri Lanka in adopting IR.

Mimetic isomorphism in organisation theory refers to the tendency of an organisation to imitate another organisation's structure because of the belief that the structure of the other organisation is beneficial (DiMaggio & Powell, 1983). Scholars have claimed that mimetic isomorphism arises from competition (Jensen & Berg, 2012; McNally et al., 2017), copying best practices or the bandwagon impact (Jensen & Berg, 2012; Matten & Moon, 2008).

#### **8.2.2.1 Pressure from competition**

Six interviewees (from five timely adopters and one audit company) mentioned about the competition or the competitive pressure. For example:

*Why this integrated reporting came here, because of the competition... Whatever the Western development we bring in here without linking those to local environment (B1-1).*

*One of the key drivers would be the change in the macro environment. Because we could see our leading listed companies were taking the same path. So why not we. That is one of the reasons we went for IR (HC1-1).*

*Whether you are revealing or not, the pressures are there from every aspects. It could be market pressure, it could be regulator, could be new entrants, new products and services, global products are pressurising local markets. So they are eroding our international revenue, so whether we like it or not, pressure will come. While being in the competition and getting all the pressures, world trends are being followed, best practices are being followed (TLC1-5).*

*Still I think the number one is PL2, in terms of price. But we are among top 3 or 4. So we improved our quality and we have adopted so many managerial practices like total quality management then benchmarking, then stakeholder engagement and lot of things and somehow we have been the trendsetters in the market. We do lot of competitor analysis, then we compare ourselves against the competitors. We compare ourselves with the local plantation companies and the foreign plantation companies (PL3-1).*

Similar was shared by one of the late adopters of IR as well:

*We also follow competitors as to what they are doing. If somebody really have to have competition, they follow our report (TR1-1).*

The auditor's view was also the same on competition:

*We have done a plantation company audit this year, then what happens next year sometimes, one of their competitors will come to us and say we want to get an assurance. That's how it increases. Until we start one of the sectors, it will not happen, once somebody starts, their competitors also want to get it (AU1-1).*



Few representatives from plantations sector were curiosity to know about the other players in the same sector during the interview. It seems that they are in competitive pressure relating to the IR agenda:

*With your study, you must have seen all the evolution happening in this IR. May I know what are the other plantation companies that follow this also?(PL1&2-1)*

*According to your analysis, what are the good annual reports? For us to learn (PL1-2).*

Despite the above, another interviewee shared his view as follows which implies the competitive pressure in a subtle way by uttering their competitor names. This shows that the sample company wants to be better than their competitors.

*Central bank also categorised us into the systematically important bank category. Very few banks are there. Our bank, B3, B8 and three governments sector banks (B2-1).*

An important finding is that several interviewees indicated that their institutional practices changed in response to pressure from the competition, especially because their former employer was an early adopter of IR (where DH2 and DH4 in 2012 and DH1 in 2013 have moved into IR). DiMaggio and Powell (1983) claimed that this copying may be diffused unintentionally, indirectly through employee transfer or turnover. It was also noted that all these examples are from a same sector, diversified holdings.

*I was at DH2 earlier and I was doing annual reports there for three years and I know what difference there and what difference here (Interviewee MT1-2).*

*Now, after new GM [general manger] came, he came from DH4, so he is used to integrated reporting, he said let's get together and do things (HT2-1).*

*I was working for DH1 before here. Integrated reporting we were doing as a practice there (DH3-3).*

#### **8.2.2.2 Influence of best practices or bandwagon effect**

To the extent that leading companies with established reputations of being well managed voluntarily adopted IR, others will be compelled to do so in order to emulate these leaders and adopt best practices (Eccles & Serafeim, 2011). This is identified as the bandwagon effect in Jensen and Berg (2012).

Two interviewees from two professional accounting bodies in Sri Lanka supported this view as:

*IR is like the trend in accounting that people want to get in to. Like a bandwagon. But they do not really know what they are really doing or if it is actually leading to integrated thinking. And the other one is, let's say one entire industry like the banking finance and insurance industry. Let's say they all are doing integrated reports, their corporate reports following IR. So people want to join on that bandwagon, it's called mimetic isomorphism, right? So that is what we normally see. So those are kinds of trends in IR (Interviewee PAB2-1).*

*When leading companies are doing that then everybody wants to do that. So that is also a good push. Competition is driving it (PAO1-1).*

Similarly, one of the academic's view also the same:

*Other one is trend. Those who are doing IR in the industry, others are doing the same. What is practicing in the industry, others also doing that and they will act according to that (Interviewee ACASL2).*

Some IR adopters were also expressive on how they are apt to follow what others do in the market as follows:

*We can learn from others also, because when this [IR] is done, if something we have not seen, we can see from others, and we can integrate that also into our system and through that way we can see better benefits coming to both parties (B3-2).*

*First, we see the gaps between the sector leaders as well as industry leaders. When we compare our gaps, we see where we can improve (PL1-2).*

*We knew that these things were taking place in the market and other companies were adopting this (TLC1-1).*

*We developed the report from what we saw in the market (PW1-1).*

*I'm also copying some information from good reporters (PW1-2).*

*We wanted to report information in the annual report in a kind of format where industry practice doing (PW1-3).*

It stems from the above that some companies tend to 'look into what others do' for two reasons. One is to emulate and learn the best practices of successful organisations to be in rivalry and second is to copy others just for the sake of reporting something. First reason is discussed with relation to the 'role model or leading companies in IR' (Eccles & Serafeim, 2011) in Sri Lanka, where some companies copy the best practices of the role models or leaders in IR in Sri Lanka to thrust the competition. Some of the interviewees (two early adopters; PL1 & DH1 and two timely adopters; DH3 & TLC1) provided evidence for the bandwagon effect due to the role model organisations in IR, as follows:

*MT1 was really a good report, I was following that and lot my things and thinking was based on MT1. I was trying to structure the report that way (Interviewee PL1-1).*

*There are companies in SL who come out with new things. MT1, they come out with new reporting format or they come out with international reporting frameworks, whatever, and it has become the standard across (DH1-1).*

*If you look at MT1 they are the number one in Sri Lanka in adopting the integrated reporting in a full integrated reporting module, to align with the integrated reporting council IIRC. That is why everyone benchmark MT1 (DH3-1).*

*MT1 has been doing a very good INR. They always win the award (TLC1-1).*

*We have not developed like MT1 and DH2 and others (TLC1-4)*

From the point of view of two ARPCs, similar thoughts were shared:

*Companies like MT1 been tested on and little by little companies started taking on IR (Interviewee ARPC3-1).*

*They [MT1] were part of the pilot project, then when they came out with their first report and then if you see our client profile also like DH2, DH4, DH1 and all that kind of clients I think wanted to do as soon as MT1 came out with their report. Also B8, they wanted to try and do an integrated reporting (ARPC2-2).*

In this way, the best practices of the leading organisations or the role model organisations of IR is identified as a key influence on IR adoption in Sri Lanka. One of these leaders in IR is the only Sri Lankan company who took part in IIRC pilot programme, which is identified as MT1. So, the other companies copied or improved upon the IR leaders' practices in order to adopt IR as one way to achieve legitimacy. In the literature, it is stated that in organisations with increased uncertainty and increasingly complex technologies, managers tend to consider practices as legitimate if they are regarded as "best practice" in their organisational field (Jensen & Berg, 2012; Matten & Moon, 2008).

Literature also claims that the desire to emulate the best practices of leading local and international firms (Eccles & Serafeim, 2011) exerted pressure on Sri Lanka companies to adopt IR. While the majority of the participants revealed the desire to copy the best practices of leaders in IR in Sri Lanka, few participants stated about the international leaders of IR:

*We were referring some international reports, especially South African reports, and there was I think one or two local companies also who adopted integrated reporting, like MT1 and DH2. That's how we found out about the concept (IN1-2).*

*South African firms were also showing the examples of this are the way of reporting when IR was evolving (ARPC2-2).*

*We did the basic things like we downloaded all these international, most of the South African reports (ARPC2-1).*

Organisations tend to model themselves after similar organisations in their field that they perceive to be more legitimate or successful (DiMaggio & Powell, 1983). In this way, mimetic processes imply that managers copy strategies of successful organisations (or competitors), which are regarded as best practice. Through the efforts of early adopters, knowledge will be developed regarding exactly what the essential elements are of an integrated report, what the barriers and challenges are to producing one, and how these can be overcome (Eccles & Serafeim, 2011).

The second reason why companies look at what others do is because they want to copy others merely to report something without having a proper understanding of what they really do. This behaviour happens primarily when an organisation's goals or means of achieving these goals is unclear (DiMaggio & Powell, 1983). In this case, mimicking another organisation perceived as legitimate becomes a "safe" way to proceed. Two interviewees from the banking, finance and insurance industry shared the following in relation to the above:

*How we came to know about integrated reporting also through review of other reports, not from seminar or anything as such (INI-2).*

*I know that there are some other companies they publish at the edge of the deadline, they take our information and somebody else's information (INI-1).*

Uncertainty is also a powerful force that encourages imitation. When goals are ambiguous, or when the environment creates symbolic uncertainty, organisations may model themselves on other organisations (DiMaggio & Powell, 1983).

It is noted that the majority who partake from three ARPCs affirm the above:

*They'll look at somebody else's report and say we want that. They may not have the processes, models or nothing, but they want to include this value creation chart and that model and everything. If you do a comparison against B3, B5 and B6, three big reports are there, there you see similarities. You'll start seeing the same heading, same structure (ARPC2-1).*

*They look at the report which has won, if it has more colours and say it's the colour that we have to meet. But not looking at the content (ARPC2-2).*

*There are times you might see some reports are more alike, that's because we all get influenced by each other, the chances that you see resemblance is very high. But at the end of the day what's the point if you are doing it just because you are following a hurdle, you are doing it because everyone is doing it (ARPC3-1).*

The term modelling, as used in DiMaggio and Powell (1983), is a response to uncertainty. The modelled organisation may be unaware of the modelling or may have no desire to be copied; it merely serves as a convenient source of practices that the borrowing organisation may use.

All these findings confirm the presence of mimetic isomorphism in Sri Lanka towards IR adoption through the pressure from competition and the influence of best practices or bandwagon effect. This influence from mimetic pressures in Sri Lanka is contrary to what is observed in Jensen and Berg (2012) due to the fact that IR is too new and the number of organisations having adopted it is too low during their study to cause such a bandwagon effect. Nevertheless, recent observations in Sri Lanka, in Gunarathne and Senaratne (2017), also found that the actions of the leading successful competitors have prompted others to emulate these best practices owing to mimetic pressures, which is in conformity with the present study's results.

An important finding here is that though some of (19 out of 62) of the participants voiced that companies tend to look into others' reports, some participants mentioned that they do not look into other reports due to several reasons. The articulated reasons are some being the leaders in IR, some think that copying others hinder their creativity, and some think that copying others may harm their reputation. Early adopters of organisational innovations are commonly driven by a desire to improve performance (DiMaggio & Powell, 1983). They also claimed that competition can spur innovation and produce alternatives so that the best choice becomes clear. Thus, the above-mentioned reasons are expressed as:

*I have to tell you very frankly, I avoid looking at other reports. If I do it, definitely it will be after we publish our report (MT1-1)*

*I didn't look at the other people's reports. Even I didn't check DH4, DH2. Because I'm getting confused. If I look at their things, no creativity. This is my own creativity. I am not then biased by them. I'll then think DH4 did this, DH2 did this, MT1 did this and now how I can put all the things. If I'm trying to create something else by looking at all others, then totally I'm gone (HT2-1).*

*Obviously we are looking at other reports because of the competition, but we have to make sure that we are doing it. That's our priority. And I don't want to go and hear something like we have put something that we do not do. It's not good for as CFO. I always say what we put is what we are doing (IN1-1).*

One of the ARPC's also communicated the same idea:

*Some reports we know that they are not even looking at these competitions. At least to do a comparison and see how are others report even, no, they do not look into. There are some who really do not (ARPC2-2).*

Out of the above, it is important to note that the interviewee of HT2 employed individual effort to be creative in their adoption of IR and it is identified as the heterogeneity practices within the organisational domains which lead to the adoption of IR (in section 8.3).

### **8.2.2.3 Global trend and corporate image**

Interviewees from two early adopters (DH1 and PL1) and one timely adopter (HC1) mentioned 'global trend' as a driving force for them to adopt IR. It was also noted that the different participants from the same organisations (DH1 and PL1) shared similar views for their motives behind the move to IR.

*According to the current circumstances, we gradually came to know it as an essential move...Every year we look at the new requirements and trends and whatever we follow those in reporting (Interviewee DH1-3).*

*It was on our call. We need to be with what is with the market also. And therefore, we need to give a very good annual report out to the shareholders and investors. For that purpose only, we went for IR... Every year we look at the new requirements and trends and whatever we follow those in reporting (DH1-1).*

*We have to go with our country trend (Interviewee PL1-2)*

*Motivation was because DH2 in terms of size, our image, status core and all of that we have to go with the trend, as he says move with the present trends and do something new. As [mention name of PL1] we have been doing new things right throughout (Interviewee PL1-1).*

*We have seen the world is moving to this direction...the sustainability, the environment all these were playing a key role. So that was one of the key move. When the world is rolling, we have to be with them (Interviewee HC1-1).*

One of the participants from audit companies also added that:

*These days integrated reporting is the trend. That's what most of our clients are reporting on (interviewee AU1-1).*

‘The corporate image and recognition’ can also be linked with the global trend which in turn would exert coercive pressure towards the IR adopters. Mimetic conduct is also said to be driven by the need to conform to wider industry norms regarded as best practice in order to avoid reputational risk (DiMaggio & Powell, 1983). One of the interviewees from a late adopter and an interviewee from one of the ARPCs shared the following:

*For us we are one of the market capitals in the country, sometimes we go as third or fourth in the country. And we have 35-36% fund managers residing outside the country as well. Then giving some kind of idea, how we create the value through this kind of concept is going to have a good amount of exposure and good amount of understanding among the stakeholders. That is one of the reasons for us to come up with this reporting, despite the influence the CASL also (B3-1)*

*Some wanted to be the good look in the public eye (ARPC3-1)*

Asserting similar results, Steyn (2014a, 2014b), in the South African context, finds that the primary motive to adopt IR is to enhance corporate “reputation” and organisational legitimacy, and Stubbs and Higgins (2014), in Australia, share similar observations from their interviews with Australian sustainability, finance and communication managers.

### **8.2.3 Normative isomorphism**

This third source of isomorphic organisational change is identified as normative and stems primarily from professionalisation, which is professional standards or networks (DiMaggio & Powell, 1983). They interpreted professionalisation as the collective struggle of members of an occupation to define the conditions and methods of their work and to establish a cognitive base and legitimation for their occupational autonomy.

In the present study, the influence from the professional bodies, influence from IR awards, the influence from auditors and the pressure from annual report producing companies (ARPCs) are considered to appear with this normative isomorphism.

In DiMaggio and Powell (1983), two aspects of professionalisation are identified as important sources of isomorphism: one is the resting of formal education and of legitimation in a cognitive base produced by educational specialists (discussed in section 5.6 in Chapter 5); the second is the growth and elaboration of professional networks that span organisations and across which new models diffuse rapidly (discussed in section 5.7 in Chapter 5).

### 8.2.3.1 Influence from professional institutions

Educational and professional authorities that directly or indirectly set standards for legitimate organisational practices are the source of normative isomorphism in new institutionalism (Matten & Moon, 2008). In this term, the role of PAOs (CASL, CMA) and other professional accounting bodies (PABs such as CIMA, ACCA) and universities, and its education play an important role. The professional environment and professional accounting education in Sri Lanka are discussed in detail in Chapter 5 in section 5.6. During the diffusion period of IR in Sri Lanka, Gunarathne and Senaratne (2017) noted a very active role of the fashion setters in promoting IR. There the role of PABs and business schools is identified important as propagators.

The interview data reveal that CASL as the standard setter for national accounting and auditing standards influenced the listed companies in Sri Lanka in their adoption of IR.

*We are following the accounting standard by the CASL and they conduct the introduction part as to the meaning of the integrated reporting, benefits and the world trend regarding this. Then, we decided to add this new thing (CN1-1).*

*Three or four years back, I cannot exactly remember the year. There they [CASL] introduced separate recognition for the IR and thereafter they have been promoting IR. Not only us, most of the other companies pushed in to it, since CASL itself started looking at that particular proposition (B3-1).*

*We got to know it from CASL about IR, importance of IR and other articles published by global research firms. Then we started to follow IR from 2014. That is how we started IR and that is with CASL (PW1-1).*

*But when it comes this integrated one, in 2010 we heard of this concept and we were thinking about the integration and there were lot of seminars and publications and especially the CASL, they were the pioneer in implementing this concept of integrated and the CSE also they have lot of requirements and both institutes had the prime responsibility in implementing this concept (B2-1).*

*What we did was we mapped out the company according to the Institute [CASL] requirement, there is a guideline (DH3-4).*

*That's actually a long time back. If I'm not mistaken, this annual conference of CAs, there was a session on IR. That's the first time we heard and we learned about IR (HC2-1).*

Out of 11 participants who mentioned the influence of CASL, only one interviewee mentioned the CSE role in IR (as in B2-1).



Substantially, it is identified that among the three national (professional) accountancy organisations in Sri Lanka (i.e. PAOs), CASL played a huge role on companies with their decision to adopt IR, confirming that normative isomorphic change is driven by pressures brought about by professions. Responses were not found in favour of the other two PAOs in Sri Lanka, which are CMA and AAT, in terms of the influence of professional bodies on IR adoption, except to the influence of CMA IR awards, which is discussed in detail in section 5.7.3 in Chapter 5.

Meanwhile, it was also noted that professionals exhibit much similarity to their professional counterparts in other organisations (DiMaggio & Powell, 1983) and share the importance of their professional career experience. Literature also claimed that to the extent managers and key staff are drawn from the same professional education and filtered on a common set of attributes, they will tend to view problems in a similar fashion, see the same policies, procedures and structures as normatively sanctioned and legitimated, and approach decisions in much the same way (DiMaggio & Powell, 1983).

*That is of course basically through the professional bodies and also the workshops that they conducted. CASL, they have reporting, governance and different different committees. Through that we learnt and that's the process of continuous education. Continuous improvement in my professional career through CA Sri Lanka basically (DH3-1).*

*One of our members, he's a member of the integrated reporting committee. [Person name]. He is in that committee in the CASL (TLC1-1).*

*I was in the ACCA sustainable reporting Committee, that was some time ago, but I'm not there anymore. So I also was one of the people who initiated this sustainability in the reporting system (TLC1-1).*

As stated in DiMaggio and Powell (1983), evidence was also found supporting the fact that managers in highly visible organisations may in turn have their stature reinforced by representation on the boards of other organisations:

*There is IR council established by CA Sri Lanka. [Name of PAO1-1] is the chairman. So they talk about IR and Integrated thinking. He is the audit committee chairman of DH3 (PL3-1).*

Additionally, one of the competitor's view of the influence of professional institutes on one of the early adopters has shown that their participation for the IIRC pilot programme was also influenced by a professional body in Sri Lanka.

*Firstly, the integrated reporting has been introduced by ACCA and then CIMA foundation also promoted the same. However, the eye-opening event was the research proposal competition organised by the ACCA and MTI, in year 2012 which was highly influenced the wide circulation of the idea of integrated reporting among Sri Lankan business community. Later, they joined with the chartered institute due to identifying it as a good initiative (DH1-3).*

One of the annual report writer's view also reveals that her career involvement as a consultant in the field of IR was influenced by her former employment experience and the former employer, which is a professional body in Sri Lanka.

*I was the Country head for ACCA. So that really took me on this path. So when I was at ACCA we use to go and converse companies that we work with to sustainability reporting at that time. We did the workshops to enhance the level of reporting. I was in the know about what was happening and when integrated reporting came out I was involved in doing the consultations here in Sri Lanka (ARW1-1).*

#### **8.2.3.1.1 Support from the professional institutions**

Along with the influence of professional institutions, this study also presents the interview responses shared by the interviewees with relation to the support and facilitation provided by professional institutions towards adopting IR and preparing integrated reports by the selected sample companies. For example:

*Professional accounting bodies are doing lot of awareness and thought leadership around IR which is also really great (PAB2-1).*

*..We got to know how the world is moving into the IR through lot of seminars of CA SL (PW1-1).*

*CASL has couple of books on IR and online there are materials in IR website and we read those and try to understand much and whatever (ARPC3-1).*

*Through the CA they form this local council and then they have webinars or something every other week (IN1-2).*

*The Chartered Institute has published a preparers' guideline, they have done a pretty good job of getting information from other reports giving examples. So now the good part is Chartered Institute has now gone that step further and given the information for the companies to follow (IN1-2).*

*We rigorously put them [employees engaged in AR preparation] into the training programmes on IR conducted by CSE, CASL, and various other institutes like ACCA and everything (B2-1).*

*And also lot of workshops that especially the DNVGL was having, GRI, and especially DNVGL and ACCA when people were brought down from when they bringing consultants on GRI programmes and things like that. Naturally in those they have talked about what's going on in the world and that' the next*

*step would be and then the integrated report would come in to practice (ARPC2-2).*

It appears that Sri Lankan listed companies were getting the help via conducting workshops, seminars, webinars and training programmes on IR, publishing IR materials, by PAOs, such as CASL (for more details see section 5.7 in Chapter 5), and then also by other PABs such as ACCA and CIMA, by the CSE, by other professional standard setters like GRI, and consultancy firms like DNVGL. These findings are in correspondence with the initiatives taken by PABs to project IR as a viable reporting practice as in Gunaratne and Senaratne (2017).

From the point of view of a PAB, one of the participants was describing their contribution towards the IR agenda in Sri Lanka as follows:

*I will tell you as an organisation and as CIMA, as what CIMA did. I was basically part of everything. So one is we helped them identify what IR is and how it differs from corporate reporting and how to actually do an integrated report. Basically it was more awareness and we got people to talk about it, understand it and then implement it (PAB2-1).*

*We did it via workshops, we got people who are doing, who are leading this fear. And who are implementing this and who are like, MT1 (PAB2-1).*

*We got DNVGL also involved in this workshops and not just the ones in Sri Lanka. So we got them involved in term of educating the corporates in Sri Lanka on how to do IR Reports (PAB2-1).*

Interview responses also supported the fact that professions are subject to the same coercive and mimetic pressures as are organisations (DiMaggio & Powell, 1983). For example:

*We actually share office with IIRC. It's in the CIMA UK building. IIRC lives in CIMA UK. The headquarters of IIRC is at CIMA. So that is how close how we want to work with IR and that's how serious we are (PAB2-1).*

Gunaratne and Senaratne (2017) claimed that almost all the PABs, both foreign and local, prepared their latest annual reports as integrated reports. Setting an example by preparing their annual reports as integrated reports, a respondent from one of the PABs remarked as follows:

*And even our annual reports, if you look at it, it is presented in an integrated philosophy of IR and INT is taken in term of developing that as well. So even when you look at organisation as a whole, we do follow and work according to the principles of the IR and integrated thinking. You need to practice what you preach (PAB2-1).*

Norms developed during education are entered into organisations. Universities and professional training institutions are important centres for the development of organisational norms among professional managers and their staff (DiMaggio & Powell, 1983).

While one of the university academic shared the following:

*Also we are teaching integrated reporting for undergraduates as well as masters classes. There is a one subject called Financial Reporting Regulation. Under that one topic comes integrated reporting practices and master level also there is a subject called Accounting for Managers. There we are taking one topic integrated reporting. That is last three four years I have done that (ACASL2).*

One of the participants from a PABs said:

*IR was in the new syllabus .... So it is incorporated. Integrated thinking, IR and aspect of it, we talk about in our subjects. It's inculcated into our syllabus and we really believe in it and we drive it (PAB2-1).*

This confirms the findings of Gunarathne and Senaratne (2017) that in addition to PABs, some business schools in universities in Sri Lanka are very active in promoting IR and they have introduced IR into the degree curricula in different subjects and organised guest lectures on IR.

The participant from a state bank which adopted IR also shared his views in institutionalising the norms through professional training institutes (DiMaggio & Powell, 1983), such as IBSL (Institute of Bankers in Sri Lanka) as:

*And in our efficiency by IBSL examination, in internal terms, you have to get through the exams for internal promotion, then we will incorporate this integrated reporting concept into those exam questions. If that is there, then everybody is keen to know and understand (SBI-1).*

*We have the E-learning platform. There, the essence of a new concept and everything is being given to the staff and the summary of the learning is prompt in to the desktop. It is always there in the desktop screen occupied by the person through the E-learning platform (SBI-1).*

#### **8.2.3.1.2 Influence from IR awards**

So far, the discussion was based on one of the modes through which normative isomorphism gets institutionalised in organisations, which is the legitimisation inherent through professional bodies. The other mode is the professional networks that span organisations (DiMaggio & Powell, 1983). This professional network can be linked with

the IR award ceremonies around which most of the IR adopters in Sri Lanka are scattered because the IR awards in Sri Lanka are organised by two main PAOs in Sri Lanka, namely CASL, which organise the “The Annual Report Awards CASL” and CMA, which conduct “CMA Excellence in <IR> Awards”. Details of these IR awards ceremonies is discussed in section 5.7.3 in Chapter 5.

Some participants mentioned that award competitions have a direct influence on the companies in their move to IR:

*Like I told you, why lot of companies in SL going for IR. One major reason is the awards (B3-3).*

*So annual report is for people like us who are handling the investors and the finance department with the whole objective of this to win a medal, where it will drive the share price. I'll say 80% of the effort is done to win an award and use it as a marketing tool, 20% of it is indirectly supporting for the overall organisational growth (DH3-3).*

Representatives from seven out of 21 sample companies interviewed for the study stated that the CASL annual reports award competition was one of the motives for them to adopt IR. For example:

*I got to know about IR because the CA Sri Lanka announced when we went for the competition, they say from next year onwards, I cannot remember the year exactly, we want everyone to get into IR. They said the IR concept started in UK and they said downloads and materials everything available freely on the site and get down and study. So we got down all the IR materials (HT2-1).*

*Practice of participating in AR competitions. CASL, they are conducting an AR competition. And during a discussion which I had after the award ceremony, that was a long ago, 2012 I think as I can remember. One of the panellists for the AR judges, was talking to me and said that you should move into the IR (SB1-1).*

*Not only us. Most of the companies are pushed by or I would say there is significant amount of influence coming from the CASL. And specifically, for most of the companies who are participating for their contest ((B3-1).*

*The competition of the chartered institute also got an important place. As I repeatedly said, all these are happening with the only purpose of winning an award from the Chartered institute's annual report award competition (DH1-3).*

*Everybody wanted to win this annual report award. That is the reason everybody wanted to dump with this right. This IR is coming, this framework is coming, and everybody is ok following it. Everybody went because of the annual report award. That I know. This is how I see about this (IN1-1).*

*Most of the Sri Lankan companies especially the banking, finance and insurance sector are very much focusing on the award (IN1-2).*

It was interesting to see that awareness of the IR concept of one of the academics who participated for the study was because of these award competitions. The same participant has also been an evaluator for CASL award competitions.

*Chartered Institute. For the last three years I have done. This year also there are nine reports which I evaluated there. Every time I'm getting eight, nine or less than ten reports. In that case I got to know about the IR concept, their principles and the framework all that (ACASL2).*

One of the interviewees from an ARPC shared that they also started looking into IR because of CASL awards as follows:

*I think I heard about IR in CASL awards, where we were having just a common conversation and IR reporting and we saw there is a new structure to report on. As a result just googled and see what is IR is and IR council, with that we started trying to understand more about what IR is (ARPC3-1).*

Similarly, most of the ARPCs, one auditor and one writer also voiced that the driving force of IR in the Sri Lankan companies is award competitions.

*Award is the main reason why they are doing it mostly. From our clients, most of them the reason why they want to do either because of awards or because of the competition (AU1-1).*

*I guess awards have also sort of made companies try to be more aligned to be in reporting. So today this mandated and simple document suddenly have a lot of exposure and it has a lot of want and people focus on this...So through time this grew, and this mandated documents started getting recognition. So in today's count you have CASL's annual report awards, you have CMA awards (ARPC3-1).*

*That drives everything. They want to do an integrated report. Because they know the word. It's a buzz word. They think it's the way to go for the award, because of the award they want to do that. Any of this workshops when they ask the first question was why you do an annual report, they then say because they have to do this and that and then they come to our table and our answer is the award. It's the award. Everything they do is driven by the award (ARPC2-2).*

*They come to us with a mandate which sounds sometimes very silly. They said that they want an integrated report. They don't know what it means. They know that integrated reports win awards. They want it to build their brand equity. Primarily, as a marketing tool. Some CFOs want it as an operational excellence tool. Because it's their duty to compete and get it (ARW1-1).*

*We get the request for an INR which will at least be a contender for awards (ARW1-1).*

Professional networks provide arenas in which central organisations are recognised and their personnel given positions of substantive or ceremonial influence (DiMaggio & Powell, 1983). Overall from the above, it is presumed that the majority of the sample companies interviewed for the study placed more focus on the “CASL Annual Report Awards”, although “CMA Excellence in <IR> Awards” was the first annual report competition established by CMA specifically for IR. For example:

*Frankly, most of these companies that do report go by this CASL award (B3-3).*

One of the annual report writers/consultants stated that winning an award at the CASL annual report award ceremony will improve the image of the companies, and thus, they persuade their clients more in to that.

*There is more focus from the institute of Chartered Accountants, which is the most prestigious annual report award. We can take more clients down this path (ARW1-1).*

Out of 21 companies, only three company representatives voiced about the “CMA Excellence in <IR> Awards”.

*We won the best integrated reporting in hotel sector. When I came for the CMA, those judges they were very particular in to this. They were telling us, don't have big reports, because, if so it is not an integrated report. I really got that message and I thought okay, now we can bring it down and bring it here and no need to have separate sustainability thing. What CMA did was a very good thing. They are encouraging people to get in to this to produce quality reports (HT2-1).*

*We have participated in several IR competitions, like CMA IR, every year they have one, and we were the first state bank to participate in that competition also (SB1-1).*

*At CMA they do, but as a policy, we don't apply for all the annual report awards competitions, because almost all organisations maintain their own politics (DH1-3).*

It was noteworthy that still these IR award competitions seem to be the driving factor for many of the sample companies to hold into IR. For example:

*In DH1 Group we do a better annual report in terms of PLC consolidation. But I am now getting all our sectors also to participate in the awards and get their integrated reports out. If you look at last year, we won eight gold awards. Last year [2017] in IR awards, in large scale, among the DH2 and DH4, and in overall, we were number two. Totally we won about ten awards from the institute (DH1-1).*

*I did the first integrated report for 2015 then I thought about the awards. Annual report award is a motivating factor for us and we will go and see how we are par with others (TR1-1).*

*Only we cannot stand against the trend. So awards is the main reason. (DH1-3).*

*We also do not mind getting an award. That award is more than helping to brand our company. Because competitions improve ourselves (MT1-1).*

*Now we are applying for all these awards and everything. Not that awards really matters to us. But being in this corporate world, it matters (MT1-3).*

*We are publishing these information to get the award. Without this report we couldn't get the award. That's why we are doing IR (PW1-2).*

*Our aim is to have the AGM within three months because of this annual report. Then we get the full marks. Our main focus is to submit the report to the audit on time and submit it to the CASL competition on time (TLC1-4).*

Supporting the above, the ARPCs also shared the following in terms of their role in assisting the companies in preparing their annual reports:

*So the requirement by the CASL for those companies to participate in the annual report competition is that they have to have the AGM within three months after their year ends (ARPC1-1).*

*Some start up the process saying we don't care about the report and we want a good report. But somewhere along this way, especially when they start winning, it's crazy (ARPC2-2).*

*...that next year report is purely targeting that award. Nothing else. It's like that they have just forgotten about what the report is supposed to be (ARPC2-1).*

In contradiction of the above, some of the representatives of the sample companies specified that their prime reason to prepare integrated reports now is not influenced by these awards competitions. These ideas are more related to the benefits of preparing integrated reports, no matter the reason which prompted them to enter IR.

*We went behind this because we want to win the annual report award, but now this is not the situation, everybody is following the same report now, now we want to give some good report to stakeholders (IN1-1).*

*This is a subtle way of getting things done. If you are going to competition you really want to do. In doing so, after some time it becomes not that you want to win the award, but you want to do it for other reasons which help in the business. And the award become secondary, having done this report and see what we can get out of that. Initially it may have been the other way around, but now we are doing it genuinely because we want to make a difference, we have to make an impact (PL1&2-1).*



*Initially the first year of IR we submitted. We got a certificate of merit and then we didn't submit. We don't have intention for reporting to get awards. We use this as marketing...give it to the potential customers, travel agents operators. They also understand what we do with regard to the environment, to the staff, to the community. So that has a value for us more than the awards (HT1-1).*

*When you are preparing the things, the awards part is separate thing and that is the by product, but the core product is reporting the things very by-heartedly of whatever the things you do according to the IR. Now getting awards is an additional thing. Last time also we haven't put our report into the awards. What is important is reporting the things for the objective of IR. If it is archived that is okay and that is enough for us (B2-1).*

Organisations operating in an institutionalised environment will naturally seek external measures of merit, such as ceremonial awards or endorsements by important people or organisations, in order to derive legitimacy (Meyer & Rowan, 1977).

The findings indicate CASL as an influential factor for the adoption of IR by the sample companies by means of a professional institution and an organiser of an annual report award competition. Literature supports that the structures and procedures are advanced by particularly dominant professions, professional bodies (DiMaggio & Powell, 1983). Further, the present findings affirm with Gunarathne and Senaratne (2017) with respect to the contribution of PABs in promoting IR and IR awarding schemes which have become very influential in encouraging firms to adopt IR. However, the active role of the professional institutions in Sri Lanka is contrary to Jensen and Berg (2012), which observed that because of the newness of the concept during their study time, business schools had not yet adopted IR in the German curricula exerting very negligible pressure on the profession.

#### **8.2.3.2 Influence from auditors**

Scholars have found that the big four accounting firms play an important role in legitimating the international accounting standards through normative pressure (Hassan, 2008). The present study intended to see whether the audit companies (two out of the big four accounting firms) in Sri Lanka have exerted pressure on the adoption of IR in the sample companies.

It was found that some companies in the interview sample contacted their auditors to gain knowledge and assistance to follow IR subsequent to the awareness of IR as a new reporting concept:

*Meantime I spoke to our auditors, [AU2], and I got their help as well. But at initial stage they told me only the introduction stage and they said it's a huge task, it's a project we have to do, it's not an easy thing to do...I engage [AU2] to guide us to do GRI and IR and take it forward (TR1-1).*

*Somebody came from [AU1] and gave a lecture on IR (PL1-1)*

*We got down all the IR materials. And we discussed with [AU2]. That time they were our auditors. We had initial discussions (HT2-1).*

One of the above interviewees also specified the service provided by audit companies in IR momentum in Sri Lanka.

*So [AU2] said they have a special unit to support people who are interested in doing IR under [person's name]. [AU2] asked for the entire IR project [rupee value]. [AU2] said at three stages. First we'll give the questionnaire, then we'll tell you how to capture the information, then we'll say how to record it. (HT2-1).*

It is interesting to see that one of the auditor's (AU1) perspective was contrary to the above in terms of the support provided through audit companies in adopting IR in Sri Lanka.

*No, we don't have anyone who is only doing the integrated reporting at the moment in Sri Lanka. As long as I know we don't have a unit where looking at the IR. I could be wrong. To my knowledge I don't know anything about this. (AU1-1).*

*Unless we can get more clients, there is no point of spending on training. If there is a potential we can see, then we'll approach them personally and ask them whether they are interested. So we don't think there will be new people will come to us because of this conducting of the training. We can't ask them to come to our training by spending money, because most of them would be our clients and asking them to spend [rupee value] on training is not nice. We may not get a big benefit from it (AU1-1).*

The same representative also mentioned that they do promote SR for their clients and no instances were found where their clients required their assistance in this IR process, but only relating to SR:

*We encourage people to do SR, because that's our job. We have to do it. Otherwise we don't have the business (AU1-1).*

*They [clients] do. Again it's not for IR really. It's for SR. Not IR (AU1-1).*

However, the same interviewee also stated that they have been contacted for the assurance of IR:

*When clients ask to get assurance for IR, we have been contacted (AU1-1).*

Similar views were shared by the participant at AU2 also. When asked for the tasks of KPMG in the IR agenda, AU2-1<sup>24</sup> mentioned that assurance, advisory work, training and process improvement for SR are carried out and AU2 has not contacted IIRC. It was further revealed that:

*We are assurance providers and we have resources to put down and we are assisting and encouraging companies in SR (AU2-1).*

This confirms that out of two ‘big four accounting firms’ selected for the study; they seem to play a ‘facilitating role’ rather ‘an influential force’ which drives companies towards IR. In normative isomorphism, professionalisation plays a major role and this degree of professionalisation in accounting practices is also influenced by the accounting firms themselves (Thomas, 1989).

There are numerous accounting firms operating in Sri Lanka, including the ‘Big Four’ and other members of international accounting firms (IFAC, 2019). Those are KPMG, Ernst & Young, PWC and SJMS Associates (independent correspondent firm of Deloitte). In a study conducted about the professionalisation of auditing in Sri Lanka, it was stated that 84% of the listed companies in Sri Lanka are audited by the four largest accounting firms that operate in Sri Lanka – KPMG, Ernst & Young, PWC and BDO partners. CASL, as the sole authority with regard to accounting and auditing standards in the country, has also been the licensing authority for auditors in Sri Lanka as only members of CASL can conduct audits (IFAC, 2019). Thus, CASL is predominantly represented by the partners and managers of the four largest audit firms in Sri Lanka, who utilise their authority in the CASL council to make decisions on accounting standards (Yapa, Ukwatte Jalathge, & Siriwardhane, 2017). And this CASL council has also played a leading role in forming the IRC SL. This again suggests that the decision to implement IR in Sri Lanka can also be encouraged by the auditors and CASL.

### **8.2.3.3 Influence from ARPCs**

In the Sri Lankan IR setting, it is observed that the annual report producing companies (ARPCs) have played a very active role in promoting IR and persuading companies to implement IR. Though the present study identifies this ‘actor’ as ARPCs (see section 7.8 in Chapter 7 for more details), interviewees identified them using the terms, ‘annual report

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<sup>2424</sup> In AU2 the interview with AU2-1 was not recorded due to their request.

agencies/companies', 'reporting agencies', 'annual report design companies', 'annual report partners/service partners', 'printing agencies', 'printers'.

This influence from ARPCs is a new finding with regard to the Sri Lankan IR agenda. According to the best of knowledge of the present researcher, no previously mentioned literature was found on isomorphic influence in this regard, except Gunarathne and Senaratne (2017), who used the interview data of a key person in one annual report preparing company in understanding the IR adoption process in Sri Lanka.

However, DiMaggio and Powell (1983) stated that 'professional associations' are another vehicle for the definition and promulgation of normative rules about organisational and professional behaviour. In a similar line, the present study relates 'ARPCs' to 'professional associations' in the absence of further literature.

Seven companies (out of 21) who took part in interviews shared the following views on the presence of influence of ARPCs on IR adoption by the sample companies. For example:

*We initiated to introduce this change from year 2013 with ARPC1 Printers (DH1-3).*

*Because DH1 group asked, and at that time ARPC1 did [DH1's] reporting also and our reporting was with ARPC1 for a long time. They virtually guided us every step of the way and they knew that we were going in one direction and when we said we wanted to get to IR they also up their scale, and they also got experts in to their system, they hired them and with the bang of IR coming in to Sri Lanka, they also took one step further and actually they went out and they studied and they came back and they have disseminated their knowledge to us (PL1-1).*

*In 2013 at that time there was another annual report service partner. We suggested them. They were ARPC1 and they came with this framework (PL1-2).*

*In Jetwing, if you look at the sustainable side of it as well we wanted to report our work that we do in that area of as well in the reporting. So with that, we do through annual reporting company, ARPC1 and they came up with plan...In 2014 we started IR from them, earlier we had normal reporting (HT1-1).*

A direct influence is identified from ARPC1 on one of the late adopters of IR, which is B3, due to the former work experience of one of the key actors in ARPC1 (the interviewee from ARPC1) had when he was in B3. When asked for any influence from ARPCs for their adoption of IR, the response from the representative from B3 and the counter-response from ARPC1 were as follows:

*Yes yes. Pretty much. Specifically since this person [who is ARPC1-1] is there, and because of his knowledge and also the understanding of the company, he helped a lot (B3-1).*

*The classic example is B3. I have had a very long relationship with them. I have worked there for 14 years and I know their ins and outs. Right from the beginning, I was at the B3 and I was doing the B3 annual report as a client with ARPC1. Then I left the banking industry in 2007 and since then I have been working here at ARPC1 because of the long relationship the owner had with me (ARPC1-1).*

With many other companies, the ARPCs appeared to be playing a key role in providing the assistance and guidance towards the adoption of IR rather imposing a direct influence on their decision to adopt IR.

*Normally we are doing the annual report with some annual report companies. We had the idea about IR. We discuss that at that time with ARPC2, because at that time they were our printer. Subsequently due to some reasons we changed from ARPC2 to ARPC1. But for us, they were not the only person who introduced this IR to us. They supported us (CN1-2).*

*At that time they also did a gap analysis and the current requirement is this, current practice is this. We met together and discuss this is what we want and then they [ARPC2] drafted that and then we collectively review all of that (CN1-1).*

*We were complying with GRI standards from 2012. And that was introduced by our AR company, the agency that pre deployed for the AR production. So they have given number of inputs for these even in the IR. So they also gave us a fair amount of inputs (SB1-1).*

*And the other way was from ARPC1. They gave us lot of input as to what is this and what needs to be and how it should be (B3-3).*

*We got lot of input from the people who do this for us. There is a team of professionals who helped us with the annual reporting. That is ARPC1. So they also have some knowledge on that. So we got some inputs from them as well. Because they do IR for other companies. So we were able to get their help. They have some professionals who know about this kind of reporting, so they always advise us. And we take the advice and it's a collective effort (TLC1-1).*

*Annually we appoint an annual report company, an agency, to support us (TLC1-5).*

*This year also what we suggested to our annual report partners was, we wanted to do something new and we need a change (PL1-2).*

*I think I heard about this IR in a conference I went four or five years back. Then I was interested and did bit of research, and then we spoke to ARPC1, they added on teaching us how to do this and that's how we started (HC1-1).*

*The writing has done by us. Actually the agency is mainly engage in the designing part and the thematic part. They have done the printing part (HC2-2).*

*Information is given by us. They do the designing, they do the photography, they come with the lay out, they come up with the theme also (DH1-2).*

Despite the above, from ARPCs' point of view, they voiced the following with regard to the role played by them in promoting and assisting companies in preparing their annual reports or INRs.

*There are few clients with whom we have done like a workshop, where we are bringing somebody who will know GRI like a consultant from India or something and we are taking somebody who knows the system and talk about all that. And said this is what we require from all of you once we start the interviews. They have been little bit more effective for us, but we do that only for really big clients (ARPC2-1).*

*We also pick and choose clients, who we can influence to say, you all are quite a big company who have a lot of value to the country's economy, why don't you all look at IR reporting as a structure that can help you sustain your company for the longer period...we try our best to promote that to our clients because we feel it as a good structure to start with, we always say take the lead, you have to start somewhere, even it's the worst IR report you are going to do, start, do it someday (ARPC3-1).*

*Yeah, we do promote. As my whole discussion was on the concept of coming out with their story and for that I think this provides a structure (ARPC1-1).*

In addition to the local IR context, one of the ARPCs identified with their active role in promoting IR in international context also:

*But we are promoting IR in the Middle East. Of course we do work with IIRC in the Middle East and we have few clients now like spot on this idea of IR and developing a report for the first time for the current year, so those are underway now which is done based on IR (Panel discussion ARPC1-1).*

Similar to the views of the ARPCs as above, the present interview data identified the annual report writers' influence as a contextual factor influencing IR in Sri Lanka. When asked whether the writers do promote IR for their clients, the response was as follows:

*Every time. This year we had two clients came to us and said we want you to write the report. So my team member said the INR, because that's the normal request that comes to us. They were like no no, just write the report for us. We said we have to go by a frame work. We can't just write the report and we do not do that. Shall we use the IR framework? Because it's a simple one and we can use the transition. So we did. The most of the times the client come with the request, this was a rare instant...It's what I believe in and it's the band wagon of me and my girls (ARW1-1).*

Conforming to DiMaggio and Powell (1983), the influence of professional organisations, IR award competitions, auditors, and annual report producing companies (ARPCs) exert normative isomorphism on the adoption of IR in the present study.

Overall, this study is also in agreement with Vaz et al. (2016) who showed that coercive and normative isomorphism mechanisms exert pressure to present integrated reports. Nevertheless, the present study found corresponding results with de Villiers and Alexander (2014) in observing a collective influence through the three forces (coercive, mimetic and normative), yet in a study of institutionalisation of corporate social responsibility reporting.

In section 8.2, we discussed how IR practice can be seen as a different expression of an idea through which organisations can be homogenised in an institutional process through coercive, mimetic and normative isomorphic influences. In the next section (8.3), the study looks into how institutional isopraxis (Adams et al., 2016) influences the decision to adopt IR in the selected companies. To be more precise, analysing the interview data out of 62 interviewees in Sri Lanka, this study has traced not only various homogenising, but also heterogenising processes which reproduce the selected organisations' adoption decision of IR practices.

### **8.3 Internal drivers of IR and institutional isopraxis**

The interview data reveal that there are several internal factors which persuaded the Sri Lankan companies to voluntarily adopt IR. Individual motives for IR, internal leadership for IR, presence of an in-house champion for IR and top management support for IR own decision to adopt IR are considered owing to the internal drivers of adoption of IR in Sri Lanka.

While the concept of institutional isomorphism is used as a tool to understand the external drivers of IR adoption in Sri Lanka through the process of isomorphism (homogenisation), the internal drivers of the adoption of IR in Sri Lanka is apprehended through the process of isopraxis (heterogenisation).

DiMaggio and Powell (1983) posited that institutional theory, new institutionalism or neo-institutionalism focus on developing a sociological view of institutions, the way they interact and the way they affect society by providing a way of viewing institutions by explaining why and how institutions emerge in a certain way within a given context. One of the institutional views that they argued is that institutions have developed to become similar (showing an isomorphism) across organisations even though they evolved in different ways (DiMaggio & Powell, 1983). They claimed that organisations are

increasingly homogeneous within given domains and increasingly organised around a formal procedure of conformity to wider institutions.

Literature has provided an extended understanding of the process of institutionalisation by replacing the concept of diffusion with the concept of the travel of ideas (Adams et al., 2016; Gibassier, Adams & Jerome, 2019; Gudbjorg & Kajsa, 2005). Using the theoretical framework issued from the Scandinavian School in institutional theory, Gibassier et al. (2019) posited that IR has diffused in complementary processes, including isomorphism and isopraxis.

Isomorphism and isopraxis as specific dimensions of institutional theory are potentially helpful for understanding why corporate reporting approaches may converge (or not) over time towards IR (Adams et al., 2016). In more clear sense, isomorphism assumes that there is little or no reinvention of an idea or innovation as it travels between adopters (homogeneity), whereas isopraxis considers that ideas are translated and modified as they travel (heterogeneity).

### 8.3.1 Individual motives for IR

Jensen and Berg (2012) proposed that a second line of future research is an empirical study that applies primary data. Responding to that, and following one of their future research questions, the present study was able to consider individual motives of IR in this section.

One of the interviewees' general perception towards the driving force of the motivation to adopt IR by Sri Lankan companies is also supported by the argument that the individual motives of key personnel in companies play an active role in their decision to adopt IR. This also has a close association with the top management support in adopting IR in the selected companies, which is discussed in section 8.3.3.

*Further, like most of the instances, in Sri Lanka individual factors play vital role in deciding all the financial movements. That is, personal interest may be the factor for some companies to adopt it. Take LF1 for an example, there is a person who has initiated this, and due to his motivation towards IR, he may be the CFO or MD, he appointed and recruited a team and get them educated on IR and did IR...I would like to define it as a personal factor rather than outcome of the company policy (TLC1-4).*

Out of the 62 interview respondents, **three cases** were found having the individual motives to drive IR in their particular organisations. Those three were representing three different sectors: banking, hotel and tour, and diversified holdings. **First**, in the banking sector, the



following views symbolised how enthusiastic interviewee B1 was in embracing IR in their organisation:

*Because of my own interest and I'm very keen on this area. I was so keen and I continued that and then first time I published in 2011 integrated report. And I went up to three years, first, second and I gave it up actually. Now I do consult others. I did so far up to 2012 as it was my personnel interest, while studying by myself. Information gathered from all branches by myself, because of my passion and my keen of interest (B1-1).*

*Yes, I initiated IR. If I leave, nobody takes care of that. I had the background in my reading, even now if I want I can initiate (B1-1).*

*It doesn't mean that I have lost my interest here. My personnel interest is there. I do research even now. I am still interested in that and that is why I talk about that this much (B1-1).*

This is a special case in the IR context in Sri Lanka, because being as an early adopter of IR in 2011, the participant continued to produce their second INR in 2012 and thereafter they seem to have ceased practicing IR for the two years, 2013 and 2014. From 2015 onwards again IR took place in their company after outsourcing it to one of ARPCs. The reason for their non-disclosure of IR was related to the issues in their top management support, which is discussed in section 8.3.3. However, it is further noted that still the respondent is ready to take the leadership for IR forward.

In addition, as the above respondent's views, the interest towards IR has followed by his aspiration to implement SR in the company at a very early stage in Sri Lanka.

*I'm very keen on writing any way, I got involved in developing the annual report, somewhere in 2006, where I wrote something about sustainability. I started sustainability reporting in this bank in 2008, in 2009 I got ACCA award for both, first time reporting and the first place for the banking industry. I participated even in New Delhi, Mumbai where they developed the first workshop, they endorsed the GRI G4 guideline. I made a presentation there. I spent my own money and went there (B1-1).*

*I'm the one who prepared, calculated and published for the first time, average travelling index for the employees. I introduced that to CSE, that buggers they didn't understand that. So my aim was to gradually reduce the travelling index of the staff, the ultimate objective is to reduce overall stress anyway and improve efficiency and productivity, when we reduce the travelling. The other way, to reduce overall fuel consumption of the economy. Like us, if all listed companies develop an index on their own, a staff traveling index and try to monitor it and gradually reducing the cost, what is the impact to the whole economy, how can we save fuel consumption, emission control? I'm the one who initiated in 2009 I think (B1-1).*

Affirming what Gunarathne and Senaratne (2017) observed, there has been a top manager who is personally involved in or dedicated to sustainability aspects and, hence, keen on developing corporate reporting. Similar to the above views, Adams (2002) identified the chairperson's influence as a contextual factor influencing SR in Germany.

Likewise, findings provide evidence for the high level of engagement and the enthusiasm of the participant, showing his utmost dedication towards implementing IR in his organisation. The participant also seems to be pleased and satisfied with his initiation of SR and IR in the bank over his personal life.

*I spent a lot of time on that. Researching day and night while working here so I spent lot of my night time. My wife blamed me saying you are with the computer on the bed. Night also you are at the computer, in the morning also you are at the computer. At the end of the day what I have got, nothing. Only the personal satisfaction. That is why I talk about these things with you, my personal interest. Nobody else can talk about that (B1-1).*

*See one student like you came and did the research, her PHD was on about me. I'm not boasting. PHD was about me as how did I do SR or how I was so keen on sustainability reporting. Why did I initiate? What was my interest? Her thesis was on that (B1-1).*

**The second scenario** of the individual motives behind IR is in the hotel and tour industry, which shows the participant's extreme motivation to dig into IR and search for that and get it implemented in their organisation.

*I did a detailed study. I researched the whole thing personally. I started creating my own and I started sketching. Then I take a pen and I draw a ball then some squares something and do the connectivity and all things. I do that kind of research. I have already started the next year one as well. Only I look in to this, CA Sri Lanka guideline and IR framework. Based on that framework only I turn around and do lot of things (HT2-1).*

*My head who is a CA, he was telling me one day he told me 2013, you won't be able to be DH2 or DH4. I said I have worked for those two companies. I can beat them. Then when IR came, he told me the same thing. You are gone and I don't think you can fight, because we don't have that kind of information. I said no, we'll start. Then I'm going to beat them. Last year I was able to do that. Last year we won the gold award. Step by step process only we came. That's what I always say this is the best IR (HT2-1).*

As in the first scenario, the following also indicates how devoted the participant in HT2 was towards the implementation of IR.

*Apart from my day today work. Then moment I go in the evening, whenever I'm free, I'm planning it. Once I got Pneumonia as well. I neglected my illness and I continued my working then I collapsed. I was treated for three weeks (HT2-1).*

Further to the above, the following shows that the top management support also has been a motive force behind his motive towards IR:

*My MD is very much in to it. He is the one who is pushing us and pushed us basically. For the thinking part major contribution came from him. He said let's do it in this way, if you do this way we might end up with this... Then my MD asked me whether I am intelligent enough to study the whole thing. Then I started studying IR and then we did the first integrated report by going through the given guidelines and based on that we prepare our model and based on that model we started filling the gaps. It came out very well (HT2-1).*

**The third situation** which provides evidence for the existence of individual motives for the adoption of IR is found in the diversified holdings sector:

*You have to have the temperature, blood pressure all that it's come in package. That is what you are doing in the IR (DH3-4).*

Three other participants who were employed in two of the above three companies stated the following, validating the findings which related to presence of an individual who plays a vital role in the company decision to move in to IT:

*In 2011 just read about the integrated reporting. My boss CFO is sound in the integrated reporting. He is writing the reports and my part is majorly the preparation of Annual report (B1-2).*

*I would say the Group Finance initiated (DH3-1)*

*That initial step came from the Group Finance (DH3-2).*

In this way, the above findings indicate that the individual motives towards IR become the company voice towards IR and they also substantiate the existence of internal leadership for IR. Despite the above leadership initiatives in three scenarios, the study also identifies a few instances where some other respondents communicated about how devoted they are towards IR. For example:

*I have to drive this IR, I have to have the knowledge. I participate for most of the IR workshops. I mean in academic learning, to a certain extent, I know the IR concept and what should be done and like that (SB1-1).*

*This is basically my initiation. It is not even requested by the director or anybody. I want to go. I always have a transparency and best information to the users or stakeholders or whoever... I strongly believe on this...initially it is a huge task for me to take the company on track with IR and give the annual report on time. That itself it's a challenge (TR1-1).*

In all the above three special cases (interviewees B1-1, HT2-1 and DH3-4), and also in other examples above (SB1-1, TR1-1), it was noted that all these interviewees are holding the positions of finance professionals as CFO (Chief Financial Officer) or finance leaders (for example, Director-Finance, Chief Manager-Finance, Senior Manager-Finance). In these particular companies, these finance professionals are well positioned to take IR to the next level as natural leaders in IR and as “changemakers” in their organisations, where they inspire new thinking and understanding of value creation (IIRC, 2017f). Since these CFOs and finance leaders increasingly have an organisation-wide perspective in their roles, as well as responsibilities that extend beyond financial management and reporting, they increasingly evolve into integrated thinking and reporting as a unique way to focus on the information and decisions that matter to the success of their organisation (IIRC, 2017f; Steyn 2014b).

However, as explained under mimetic pressure, MT1 was identified as a leading organisation in IR with its early adoption in 2011 as an IIRC pilot study participant and also as a role model organisation in the IR agenda in Sri Lanka. The CFO of MT-1, who has been in this IR process since beginning, also seemed to be a change maker from the perceptions of different IR actors. From academics’ point of view, the following participant shared his opinion relating to a leading role played by the interviewee (MT1-1) as the changemaker in MT1:

*In [the person name of MT1-1 in the study] is doing good job there. He is having a good intention there. He is 100% engaging in that and an idea to do something. This sustainability reports he tried to develop and incorporate that. Now he is leading with that IR. He is having a genuine concern in that (ACASL2).*

*[Name of interviewee MT1] is a one having very good experience and he is so humble and really doing good in their IR. He is the one I think we can contact for IR. People like [name of MT1-1] are very positive and receptive (ACASL1).*

The voice from one of the PABs point of view also was the same:

*We did it via workshops, we got people who are doing, who are leading this fear. And who are implementing this. Let’s say [mention the name of MT1]. [Mention the name of MT1-1] is a good example, because he is being in part of the IR from the beginning (PAB2-1).*

Becoming the “change maker” also helps a CFO enhance his or her role and reputation and increase his or her profile and shine as the key value enabler in the organisation (IIRC, 2017f). The following interview statements provide examples for personal appreciation

these change makers have received in their career because of their initiation and leadership towards IR:

*In 2012, when I show the first integrated reporting in Sri Lanka, the lady over their showed that to the whole crowd. They gave a very good recognition to me (B1-1).*

*I have experience of seeing that, okay you are the CFO [name of IN1-1], then, good recognition is there (IN1-1).*

Despite the findings of the practitioners' perspective, findings revealed that individual motives and the internal leadership towards IR are also unveiled by the participants in ARPCs and among report writers (ARWs) too.

*How we got into the reporting, now the owner, a gentleman called, [name of the founding partner of ARPC1], he is medical doctor and after his internship he has got into this business after that. This is his passion. He was so passionate about this whole business and that is why he got into this. That is how it happened. Even to date, he is very passionate about IR. He is well known of all the concepts of corporate reporting... He has been helping companies to come out with their stories. To bring out their stories... That is because of his passion for this IR, before IIRC came into the picture (ARPC1-1).*

*Because of my passion for this whole thing, I was reading about the exposure drafts and all... So one thing that inspire for me to be a consultant was, we would get say 40 reports, out of that 40 reports 25-30 easily put away, because, even though they call it sustainability reports at that time, they were not structured, information was incomplete, and there was obvious lack of cohesive plan to manage the factors... I can really make a difference and I thought I want to see better reports and I can write. So why don't I do this and I really wanted to do so... I wanted to make a real difference (ARW1-1).*

In the end, change requires the commitment and actions of individuals. This obviously includes people in leadership positions who have substantial influence in getting their organisation to contribute in its own way to the integrated reporting movement (Eccles & Serafeim, 2011), confirming the present study findings. A similar strand of results was also affirmed in Gunarathne and Senaratne (2017).

### **8.3.2 In-house champion for IR**

Furthermore, the study has identified that the availability of an in-house champion to drive this IR as an internal driver facilitates the adoption of IR by Sri Lankan companies.

One of the participants among timely adopters mentioned the importance of having a key resource person to take this IR initiative forward:

*Since we have an in-house member, we might be able to get some input from him. Now Mr. Rodrigo is also there in the committee. So we can get some inputs. He was appointed only a few months ago. So he will start learning the process. More and more. So we have a resource person in house and which can be of use. And with that, probably I think we might be able to improve it further. For us, we have a member here, but if you take another company, they might not have that resource (TLC1-1).*

*If we started to do anything, we should be responsible to successfully reach its ultimate goal. In that sense, it is not wrong if anyone see me as an award chaser (DH1-3).*

From some other interviewees' opinions, it was discovered that they themselves act as resource personnel in making this IR a momentum in their organisation.

*Just now I got this article 'integrating sustainability into the BM'. I have read a lot on IR. I have lot of materials in my email every day (SB1-1).*

*I was reading something "how accountants can help companies to create value", because that's my next plan also. This one, see. [The interviewee starts reading the title of a particular article he was having] 4 key steps for CFO integrated thinking and so this is what I read. Once I read I get lot of things, at least you should browse once in a while. Now somebody should has the understanding in this concept and methodology to act. That's why I try to acquire this knowledge...Major writing was done by them [ARPCs], not by us. The thing is we can do it internal, I feel I can do it when I get more business understanding and business knowledge and when I get the knowledge about this framework...When I also get a good understanding about the framework, so I can also suggest that we will do this, we can do this, we can improve this, now like it's their baby kind of thing. So that's why I have started my journey with these articles and may be with your help also. So this will be the way forwards and that's why I want to gain more knowledge and implement it to the advantage of the business (PL3-1).*

An eminent finding was observed with interviewee PL3-1, where he is inspired by thirst for knowledge on IR, and viewed as a future leader for IR.

*This is still kind of a theoretical exercise. But somebody should drive this. To understand the value of this IR, first the concept and then apply it in the board room or management level meetings. I can do that I think when I get more knowledge on this. Then I can process this, I can command, I can tell our writers, okay write on this and write on that. For that I need to have more operational knowledge also...And this is my new direction as well. Because I realised the importance of this IR and now I have big plans. My plan is to take this forward (PL3-1).*

Though the above participant voiced IR as a theoretical exercise which needs to be driven by knowledgeable expertise in an organisation, the following participant views IR as only theoretical and not practical in Sri Lanka depending on the level of support from top management:

*If you go through all other institutions, if you don't get the top management support and the passion on that, nobody can continue anything. That's why all these in the Sri Lankan context, that's only theoretical. Not practical (B1-1).*

Overall, the above highlights the importance of key persons in key leadership positions in understanding the IR context in Sri Lanka. Taking this discussion forward, the following section presents how the level of top management support has played its role in the sample companies in IR adoption.

### **8.3.3 Top management support**

Partakers from one of the late adopters and one of the PABs prompted the discussion forward by sharing a general view of the importance of top management support in understanding and adopting the concept of IR, and continuing with IR.

*I have seen certain companies who actually do that, but, then you will find that the very top person is the one who drives that. So the companies who have that top person be aware of these things and have a vision can inculcate that particular thinking into the organisation. If the top management doesn't have that idea in to the benefits, it'll take time for them to understand and then adopt (B3-3).*

*Top management support really drive IR forward and also it should come from the top. When you don't have the buy-in from the top and the top management expects something else from you, then it's really difficult for people to get together and achieve that (PAB2-1).*

Literature from the same research setting also supports that a progressive organisational culture coupled with top management support is an internally driving force (or even a facilitator) in preparing INRs (Gunaratne & Senaratne, 2017). Several participants stated IR is something that comes from top and their top management was absolutely supportive towards implementing IR, and thus they considered the top management support as a key driving factor that drives IR in their respective organisations

The above participants from nine companies (out of 21) seem happy about the level of support of their top management. For example:

*From CEO downwards they are driving this [IR] (PL1-1).*

*On our own, after deciding we went and told MD that we are going to follow this. We did not have any problem and we have a very open culture here. So we got full blessings and we went with that IR idea...I think this communication has to go to the top management of the organisation for them to understand the benefits of IR. For example I'm part of the top management. I generally keep everyone informed about what we are doing and we have never had any problem from them, but you have to understand that they are not technical*

*people in these areas. They will just trust us and give their blessing for us. But only thing is, if they have a better understanding of these concepts, I think we'll get much bigger support (B3-2).*

*Then coming from the top management views, we are trying to do our own research in terms of the preparing of integrated reporting and as the top management that we concentrate it make business sense. It has to be with true business sense. Then embracing of the conciseness of this integrated reporting (Panel discussion DH2-1).*

*The staff, from the very top, from the managing director to the bottom, every member respect other members and very good team work is there (B2-1).*

*We will have the blessings of the senior or top people, because they would all want the company to improve on whatever they are doing. It's an improvement an all-around improvement (TLC1-1).*

From some of the participants' comments, it was noticeable that their top management's contribution in adopting and driving IR is key and their support was excellent.

*We have convinced the management the benefits of this integrated reporting...with the leadership support, basically with the Group Managing Director, Managing Director and also with support of the respective business units' CEOs and basically the Group Finance, then we go to the Board saying that what we are going to do, so the Board was very happy with that decision and they said go ahead. Then we started from 2013/14. That is our first INR (DH3-1).*

*Financial reporting entirety was a favourite topic of our CEO or MD at that time. So he is very in to it. It's [name of the CEO of IN1]. He was very familiar with it and he was very much involved in it. So that's the support we got from the top management (IN1-2).*

*My MD is very much into it. He is the one who is pushing us and pushed us basically. He was helping. He looked after that side and I looked after this side, so end of the day we merged (HT2-1).*

*My view on it actually as to why MT1 is capable of giving an integrated report is because the senior management is a part of this...Our General Manager in Finance also a very key contributor in IR (MT1-3).*

*If you take about the support, everybody appreciate, everybody think that it's important that we do an integrated report, everybody means especially Director board and GMCs, that is our senior management and the Chairman also...In a poya day when we were working, then he [chairman] came with a treat, he talk with us, he appreciate what we are doing at the last couple of days, he came twice there (MT1-2).*

Despite the above findings, a few other interviewed participants had a different view regarding the top management support towards IR. This is identified as the failure to support by the top management in the IR process and it is discussed as a challenge in IR in Chapter 11.



So far, the study has discussed the external and internal drivers of IR which have motivated the sample companies in their IR adoption decision. On the other hand, the study also found that two participants were uncertain about the driving force behind their company's decision to adopt IR.

*But I don't know the history. I was not there in the company that time (PL3-1).*

*I don't know why they went for integrated reporting because it's far more back (MT1-2).*

Also, some companies were hesitant and reluctant to accept that any of the external forces have influenced them in their choice to move into IR. Although these companies had already unveiled in previous sections that they were also influenced by some of the external or internal influence for IR, they expressed it as their own choice to move into IR.

*Actually, it was decided by our own, as a reputed company in the country and as the pioneer of the construction industry, we thought to have an INR for all our stakeholders. That is why we decided to have IR (CN1-1).*

*No. There was no influence at all. In fact, we opted to go for it (B3-2).*

*Since we have been a listed company, we wanted to go with the new developments as well. This was actually our own initiation. Even nothing influenced by anybody (TLC1-4).*

*I would not say that there was someone who really initiated it, because of spontaneous thing. It happened with the time. And then naturally, we also improved our report. So there was no initiative as such, not a particular initiative to introduce integrated reporting, but it happened naturally. I would say it was a natural process (TLC1-1).*

However, in precise terms it was discovered in sections 8.2 and 8.3 that the majority of the sample companies had been exposed to external as well as internal driving forces of IR in Sri Lanka.

## **8.4 Chapter summary**

This chapter addressed the research question about what has driven the public listed companies to voluntarily adopt IR in Sri Lanka. The analysis was carried out using the institutional theoretical lens, with specific reference to the concepts of institutional isomorphism to identify the coercive, mimetic and normative pressures, and institutional isopraxis to identify the internal driving forces. All three types of isomorphic forces were found to collectively influence the decision to adopt IR by the sample companies. Coercive isomorphism was identified through the pressure from IIRC, influence through the

organisational adoption of SR where GRI was an IIRC-supporting organisation, influence from parent company and pressure from stakeholders. The interviewees of sample companies demonstrated experiences of mimetic isomorphism from competitive pressure, global trend and corporate recognition and bandwagon effect through the role model or leading organisations in IR (best practice organisations) since practitioners considered IR as the best practice for their corporate reporting. The interviewees appeared to be pressured by normative isomorphism from the influence of auditors and professional organisations. Professional accounting organisations exerted normative isomorphism pressure through their activities, such as conducting workshops, seminars and discussions to promote IR and conducting special awards for IR. Interviewee findings highlighted that CASL played a key role in this regard and their two publications also assisted and guided practitioners in preparing their integrated reports. Annual report producing companies which provide a supporting service to PLCs in their annual report preparation process were also found to be a source of normative pressure for the Sri Lankan companies to adopt IR. In the present study, internal pressure was exerted on companies to voluntarily adopt IR because of the personal motivation of the top management towards IR, availability of a resource person to carry out IR and through the top management support.

## **Chapter 09**

### **Realisation of IR and Integrated Thinking**

#### **9.1 Chapter introduction**

The previous two chapters identified that there is a growing trend in IR among the listed companies in Sri Lanka, and their decision to adopt IR was based on various institutional driving factors. Although IR has been well adopted in Sri Lanka, this chapter opens the discussion on whether it is followed with a real sense of IR. Since IR emphasises the importance of integrated thinking (INT), this chapter explores how IR and INT foster each other in creating value in the short, medium and long term in Sri Lankan publicly listed companies.

Section 9.2 and section 9.3, describe how the interviewees internalised the concepts of IR and integrated thinking, respectively, in their organisations. Section 9.4 presents how interviewees understood the relationship between IR and INT. Section 9.5 provides the chapter conclusion.

#### **9.2 Manifesting IR**

Based on the interview data gathered through a participant triangulation of 62 interviewees, it was noted that IR has been well adopted in Sri Lankan PLCs. Although the number of integrated reports increased throughout the study period, in reality some of the interviewee participants were not sure about the voice of IR. For example, through the interview transcripts it was identified that some interviewees from PLCs describe IR as a way of combining financial and non-financials together as IR, while some others defined it in another perception, evidencing a concern in the real sense of IR and INT. Hence, this section first leads to a discussion of how the concept of IR has been internalised in PLCs in Sri Lanka.

##### **9.2.1 The participants' perception of IR**

The researcher investigated what IR means to different participants in the present study. In IIRF (2013), IR is defined as a process founded on integrated thinking that results in a periodic integrated report by an organisation about value creation over time and related communications regarding aspects of value creation. Further, an integrated report is

defined as a concise communication about how an organisation's strategy, governance, performance and prospects in the context of its external environment, lead to the creation of value in the short, medium and long term (IIRC, 2013b). It was interesting to see that only two participants could express some key elements of an integrated report when they were asked to describe what IR means to them.

*It's reporting about performance, governance, prospects and strategy in a concise manner in a connected way (MT1-2).*

*As a person who do this I know about the strategy, governance, performance and prospects will reflect in the report how it is generate the final outcomes. How it adds the value. Basically, that is what IR means (DH3-3).*

It was also noted that the above two participants play a key role in their respective organisations in the preparation of integrated reports. According to them, they do the report covering the four main aspects (strategy, governance, performance and prospects) and they link those to show how their organisations have driven the value or how they have created value based on those four aspects. As stated in the IIRC disclosure draft, IR brings together material information about an organisation's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates (IIRC, 2011).

In contrast to above, findings revealed that the majority of the sample interviewees had no clear idea about what IR is. In general, the following provide examples of the lack of understanding of IR. One of the academics shared his experiences in one of the IR workshops he attended in CASL Sri Lanka.

*There are some top people came from IIRC. When they came and when they presented what I realised was that nobody understood what is this IR. I questioned what is the meaning of IR, but they couldn't tell real meaning of IR. It was grey for themselves. This is what I observed (ACASL1-1).*

Confirming the above, one of the participants from ARPCs also shared the following:

*I think what we do noticed is that there is no definition in anyone's head properly about what IR should be (ARPC2-1).*

Similar views were found in Gunaratne and Senaratne (2017) from the point of view of annual report preparing companies.

Though the IR trend is growing, in reality it was discovered that participants had a different sense of IR in their minds. Thus, some participants viewed IR as a wide area that covers a

lot of things in the annual report and that provides more information to the stakeholders. For example:

*IR gives more information to the stakeholders (DH3-1).*

*Anyway, if you disclose more information in IR, it is good (DH3-3).*

*IR is a wide area that covers a lot of things. In my opinion, IR is an information flow, because earlier, there is no flow of information and there was isolated information in the report (Interviewee CN1-1).*

*Basically, for me it is how and what the company doing (Interviewee TR1-1).*

*IR brings the whole and big dimensions to reporting (PAB2-1).*

*IR I would say is, you trying to get all the information, you integrate whatever you have, and you try to disseminate to outside world. So, IR is broader perspective of what you are trying to do (PL1-1).*

*when you go to the GRI and integrated reporting models, we are putting very detailed information, very comprehensive format and giving everything there (TR1-1).*

If IR is identified as giving more information to the stakeholders, it contradicts the original idea of publishing an integrated report, which is a concise report. Based on the above views, achieving conciseness as one guiding principle seems challenging to the business organisations. IR is not giving detailed information. This issue is discussed in the challenges of IR in Chapter 11. This perception of IR may be one of the reasons for the lowest level of attention to the conciseness principle as described in Chapter 10.

An interviewee from one of the role model organisations of IR forwarded an opposing view to the above perception of IR:

*Actually, people say this, it is very easy to write something at length. But the difficulty is to write the same thing in a simplified form. That is what IR is... IR is nothing, no rocket science there. All you need to do is to comprehend your organisation (MT1-1).*

EY identified IR as a concept that has been created to better articulate the broader range of measures that contribute to long-term value and the role organisations play in society (EY, 2014).

Some other participants described IR as a way of combining financials and non-financials, which is not IR. If we combine financials and a sustainability report (or the CSR reporting) together, it does not make an integrated report. An integrated report is different from combining two reports. The following views were shared by the interviewees:

*IR as my personal understanding would be that it combined financial and non-financial together and giving a holistic kind of a report to the stakeholders (HT1-1).*

*So, this takes sustainability and financial reporting all of that it's a good combination of that (PAB2-1).*

*At present, the report has been included with the corporate social responsibility and the management commentary. In the real sense, accounting, management commentary and sustainability reporting are three different areas and those were inter-connected by IR (DH1-3).*

*Integrated report contains detail relating to human, social and financial status (DH1-3).*

*To cover the gap and to have a link between financial and non-financial aspects only this IR concept came (PL1-2).*

*It provides the overall picture of the company, both historical and future and, not only the financial data, but qualitative and quantitative both. And also, the future aspects as well. IR is more than the financials and more into a non-financial thing which are more important in current aspects (PW1-1).*

*IR gives us a very broad view to be honest. Now, we have started some CSR activities. All these have come from the integrated reporting (HC1-1).*

In conformity with Gunarathne and Senaratne (2017), for some of the respondents IR was a coherent reporting model which combined different strands of corporate reporting, such as financial, governance, and sustainability (Eccles & Krzus, 2010; Eccles & Serafeim, 2011). This reflects a situation as described by Eccles and Serafeim (2011). In an early stage of IR, when there is no universally accepted framework for IR and what it means for a company to produce an integrated report is not well defined, Eccles and Serafeim (2011) claim that companies attempt to integrate the reporting of their financial and non-financial performance, and that this varies across countries in several ways. They further mentioned IR involves reporting both financial and non-financial (environmental, social, and governance/ESG) information in a single document, ideally showing the relationship between the two in terms of how good performance on ESG issues contributes to good financial performance and vice versa. Eccles and Krzus (2010) described IR as linking financial and non-financial information to communicate with stakeholders.

It was surprising to see that one of the ARPCs which assists companies in their preparation of integrated reports also shared that IR is combining financials and sustainability as follows:

*This whole concept of IR that is to see how companies are aligned with the social and environmental objectives in their attempt to sustain their business (ARPC1-1).*

IR is more than combining the disclosures of financial information and non-financial information into a one report. Adams (2017) mentioned that a lot of people think it is about putting together the financial and sustainability reports. She further stated that is wrong, and that IR is much more than that and much less. It will not replace either a financial or sustainability report; both must be in place for IR (Adams, 2017).

Some others viewed IR as a checklist and also as a tick-box exercise. Stubbs et al. (2014) pointed out the danger that IR could become a 'tick-the-box' process to produce a report. One participant from the plantation sector shared a general idea that many companies have still not understood what the real meaning of IR:

*Even though they [companies] adopted this, for many companies who boast about this IR is like a form filling exercise, tick box exercise, they claim that they follow the IR, but they don't. That is still not in among themselves (PL3-1).*

Similarly, two other participants also shared similar views:

*How we started IR was, we collected the documents and had a checklist. We have used the checklist for up to three years I think (TLC1-4).*

*If you really look at it, and go through the GRI and integrated reporting, the guidelines. So those are the checklists as a company when you want to drive and run. Those are the checklists that help the company to use those resources efficiently (TR1-1).*

One of the ARPC participants brings the IR awards into the discussion of perceiving IR as a checklist, whereas the annual report writer shared disadvantages of using IR as a checklist as follows:

*If you thought of the award and forget about the IR, then entire report structure will change. Then they will fulfill certain headings purely because of the checklist. They need those headings should be there purely because of the award scheme's headings (ARPC2-2).*

*A check list is so comprehensive, you get bogged down in that details and forget to add on all the other things (ARW1-1).*

In a similar line, the interviewees from the two hotels expressed IR as an improvement to traditional corporate reporting:

*Initially in the first year of IR we followed that process [putting information into IR structure], and then it was just a continuation of the particular structure. Other than that, only the exceptions were reported, if not it was the same that continued (HT1-1).*

*Every year we started adding new things to the original model (HT2-1).*

Further, IR is also described by IIRC as a strategic and future-oriented communication about how organisations draw on different resources and relationships available to them and how they use their capitals to create value over time.

Quite interestingly, it was noted that few partakers perceived IR in relation to the capitals. For example:

*In IR we'll have to see how we can link all these capitals into our business. This is what we have to talk about in IR (HT2-1).*

*When we report on financial bottom line, we should comment about other capitals which has contributed this financial bottom line, how the organisation or the entity has taken efforts to develop and sustain those other capital. Then only the bottom line is sustainable. That's the whole IR concept (B1-1).*

*IR, meaning in theoretically says that how company creates value for their six capital components. How company attempts to perform to add value to their different capitals identified by them. That is IR (ACASL2).*

*IR can be defined as reporting the totality or total aspects of the company to the stakeholders based on the six capitals, financial, social, intellectual everything (B2-1).*

Knauer and Serafeim (2014) define INT as the systematic management of all the forms of corporate capital with the goal of delivering sustainable profitability. IR gives the broader picture of the organisation to the readers of the annual reports. Broader picture in the sense that instead of just the financial bottom lines, an entity should see the whole business as a means that utilizes and develops various capitals, namely financial, intellectual, human, manufactured, social and relationship, and natural capitals to create financial, social and environmental values and sustain sustainability.

A participant from one of the early adopters in the banking sectors shared his views explaining an example to the above as follows:

*We will be reporting better bottom line today, but next year we won't be able to give the same because of some other reason. If we have not developed the capitals, say if we have not developed the staff, we can't sustain our profitability. So, without paying for staff training and development, we can increase the profit. See this year financial statement, we give a better bottom line, so any investor looking at that will think that we have better profit and*



*they are going to come and invest. Next year we have recorded better bottom line, but we have not invested money for the staff training and development. So, staff is frustrated. Next year they will not perform like that. Then what will have to the profitability. Same way we have not developed intellectual capital. We have made a good profit this year. Part of that we have do research and development to develop new products or the technology whatever, we have not invested for technology and new products, then what will happen. Others will take over our market, because others will act faster than us, develop new products and they will do a better profit than us, so then what will happen to the investor. Our profitability is not sustainable in that sense. Likewise, that's the way (Interviewee B1-1).*

As in IIRF, one of the aims in IR is also to enhance accountability and stewardship for the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and to promote understanding of their interdependencies (IIRC, 2013b, p.2).

This section took the discussion of whether these interviewees understood IR as IR has been discussed by IIRC in IIRF because some talked about IR without knowing what IR is. That shows the lack of understanding on IR by majority of the interviewees. The lack of understanding on IR as a challenge is discussed in Chapter 11.

The above-mentioned statements confirm that IR concepts have not yet been well internalised by many of the participants of the study who represent early, timely and late IR adopting companies. This lack of understanding on IR has been highlighted by many scholars (Atkins & Maroun, 2015; Gunarathne & Senaratne 2017; Stubbs & Higgins, 2014).

However, what made IR necessary is the fact that financial reporting is not sufficient for the sustainability of business organisations. With IR, the IIRC has highlighted the importance of capitals, stakeholder engagement, business model, governance structure, the strategy and resource allocation, future orientation, etc., as drivers of sustainability. Organisations are using IR to communicate a clear, concise, integrated story that explains how all of their resources are creating value and it is helping businesses to think holistically about their strategy and plans, make informed decisions and manage key risks to build investor and stakeholder confidence and improve future performance (CASL, 2019).

In the literature, there are some qualitative studies which engage with early integrated reporters as well as key stakeholder groups (investors) to explore how IR is perceived and conceptualised (Haji & Hossain, 2016; Higgins et al., 2014; Robertson & Samy, 2015;

Stubbs & Higgins, 2014; Stubbs et al., 2014). This line of research reports that there is a gap between the desired IR (as prescribed in existing IR guidelines) and the actual practice. For instance, Stubbs et al. (2014) observed that there is a significant gap between the information supplied by Australian firms and information required by investors. Similarly, Higgins et al. (2014), submitted that Australian firm managers conceptualise IR as a ‘strategic story-telling’ and ‘about meeting expectation’.

In particular, IR focuses on the ability of an organisation to create value in the short, medium and long term and has a combined emphasis on conciseness, strategic focus and future orientation, the connectivity of information and the capitals and their interdependencies. In so doing, IR emphasises the importance of integrated thinking within the organisation and supports integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term (IIRF, 2013b, p.2). Hence, IR is not about reporting, but encompasses integrated thinking.

In a similar line, the former CEO of IIRC also mentioned that IR is not only about the final product, it is about demonstrating integrated thinking (INT) (Deloitte, 2019). Thus, the next section describes how the interview partakers perceived this INT.

### **9.3 Perception of integrated thinking (INT)**

In business leadership literature, the concept of ‘integrative thinking’ was first introduced by Martin and Austen (1999) as part of a decision-making model seeking to enable managers to solve the tension between two conflicting choices, namely, profit maximisation and social and environmental sustainability.

The IIRF’s December 2013 publication defines integrated thinking as “the active consideration by an organisation of the relationships between its various operating and functional units and the capitals that the organisation uses or affects” (IRC, 2013b, p.2). It also states that INT leads to integrated decision-making and actions that consider the creation of value over the short, medium and long term (p.2).

Though IR is identified as more about thinking, particularly as changing the thinking of organisations, it was surprisingly noted that many participants of the study had not had a clear idea of what INT is. Following provides examples for such:

*Actually, I also do not know what you really mean by integrated thinking (REG1-1).*

*Integrated means to put everything together. Thinking means maybe thinking about not only one particular section but taking everything together (TLC1-1).*

*I believe integrated thinking is to have an overall vision on how achieving those goals (DH3-1).*

*INT means when we do our strategy, we have to look at the all the aspects. Is that the meaning of INT? (PW1-1).*

*What is it [INT]? Even [person name of REG1] didn't have any idea of integrated thinking. He didn't have an idea. Nobody had a clear idea about integrated thinking (ACASL1).*

*I know integrated thinking is a concept (PAB2-1).*

Feng et al. (2017) argued that one difficulty in interpreting integrated thinking is the absence of clear precedents in reporting contexts and INT as one underexplored aspect of IR. They further indicated that integrated thinking is still an unclear and evolving concept. While a few early discussions on INT emerged in the literature (Churet & Eccles, 2014; Knauer & Serafeim, 2014; Oliver et al., 2016), the integrated thinking concept was found to have very little focus in either mainstream corporate reporting or academic research, especially relative to its centrality in the IIRC framework and agenda (Dumay et al., 2016; Feng et al., 2017; Perego et al., 2016).

This section aims to help clarify what integrated thinking means to key IR stakeholders, including IR practitioners/adopters, professional organisations, accounting firms, IIRC regulatory body, annual report preparation companies, annual report writers and academics, including how closely their interpretations of integrated thinking align with the IIRC's own definition.

However, despite the centrality of integrated thinking to IIRC's reporting agenda, the IIRC has provided relatively little explanation of the integrated thinking concept (Feng et al., 2017; IIRC, 2013c). Findings of the study show that the meaning of integrated thinking is not solid and that different interpretations evolved amongst reporting organisations and other actors.

Two participants of the study stated that even the IIRC has not clearly articulated what INT is. For example, they shared that:

*When I ask even from these people who came from IIRC, they come here once in a while, they also have just grabbed the book, they can't tell ok what do you mean by INT (REG1-1).*

*First, I tell you how it is defined in the framework in IIRC. Because I challenge it, that's why. It says integrated thinking is relationship between operational units and capitals, that's what they say as integrated thinking. The understanding of the relationship between capitals and operating units of an organisation (ACASLI).*

Accordingly, participants expected more clarifications from the IIRC on integrated thinking. This confirms the findings of Feng et al. (2017) where IIRC appeared to lack a clear concept of integrated thinking across its international releases and discourse, and one difficulty in constructing Feng et al.'s (2017) interview questions was the lack of a clear concept of integrated thinking in the IIRC's own framework.

Although IIRC has defined INT in IIRF as above, it was noted that some other professional institutes have also given different definitions for INT. For example, in a CIMA global academic research programme, integrated thinking is defined as “a term that refers to the conditions and processes that are conducive to an inclusive process of decision making, management and reporting, based on the connectivity and interdependencies between a range of factors that affect an organisation's ability to create value over time” (AICPA, 2017a). It had become obvious that organisations could not prepare credible integrated reports unless conditions and processes within the organisation were conducive to the effective preparation of this report. According to SAICA (2015), these conditions were described as integrated thinking.

It was also evident that the sample interview participants had not voiced a clear understanding in defining what INT means to them. Among them, some identified INT from a systems theory perspective and INT as eliminating isolated thinking. Whereas some others voiced INT as board-level thinking or strategic thinking and INT as engaging with different capitals.

For example, from a systems theory perspective, a participant from an early adopter shared the following:

*When you think of integrated thinking, it's a composition or collection of certain things. I see [MT1] as a system. You know about systems theory. So, I see [MT1] as a system. Within this system, lot of things work. There are sub systems, sub systems are also connected. So, [MT1] is something like that. Connectivity is there everywhere (MT1-1).*

Similarly, based on systems thinking literature, Oliver et al. (2016) provided evidence of hard and soft integrated thinking.

A few others viewed INT as eliminating isolated thinking. According to the IIRC, adopting IR should encourage a shift in managerial mindset from “silo thinking” to “integrated thinking”, in which senior managers actively re-think their strategy, business model and corporate governance. INT really helps businesses to break down some of their internal silos and barriers and put some processes in place to measure the management information that gives a new perspective. For example:

*As a company, there are lot of divisions, planning division, finance division, procurement, and they are so many divisions, but as a division they think isolate. Their team thinks to improve their performance, but ignoring companion performance, I think the most important thing is not their personal goals, we have to mainly focus on the company goals, and we have to prepare all the strategies planning and other things to achieve that goal. I think that's the integrated thinking (CN1-1).*

*As you grow up, as you grow within the company and as you come into more senior person, you will start interacting more and more with cross functional guys. Then you have a different perception, then you learn to appreciate their issues, their problems, how they do things, their interdependencies, all that you come to appreciate. So, when I'm thinking of a financial issue, I will be thinking about other departments as well, the connections which will make for this particular decision. So, I think you're thinking becomes more broad, broader thinking. So, I think that has some connection to the integrated thinking (TLC1-1).*

*More than the numbers we connect dots with each thinking pattern for an example HR, Finance, Marketing, Sales, Manufacturing whatever. Thinking pattern has integrated. Standalone functions or operation units hold together, and this is how we have to report. In terms of thinking that we converted into the reporting style. That's the most value addition, otherwise if you think in silos or individually, then you can't get that synergy (DH3-1).*

Based on the above views, INT matters because that is what brings everybody towards one organisational goal. Bringing people together really helps in eliminating silo thinking and in turn it will assist in formulating strategies which are not dispersed. In this way, INT helps to do that, and it does not only look into just one aspect. Use of an approach of focus on the issue rather than a silo approach promotes cross-functional and cross-hierarchical collaboration (NIBR, 2016). These findings were similar to the findings reported in the IIRC's 2012 Yearbook, which highlighted the way in which working across departments to connect information in order to develop IR can help break down 'silos' and lead to stronger cross-functional communications (IIRC, 2012a, p.5).

KPMG's (2012) report argued that successful IR is not just about reporting, but about coordinating different disciplines within the business and focusing on the organisation's core strategy and connecting different teams across the business.

SAICA (2015) stated that the antithesis of integrated thinking is said to be silo thinking, which exists to varying degrees in many organisations. As highlighted in the IIRF, the more that integrated thinking is embedded into an organisation's activities, the more naturally will the connectivity of information flow into management reporting, analysis and decision-making (IIRC, 2013b).

One of the PAB participants shared a similar idea as follows:

*It [INT] looks into a 360-degree view of what an organisation needs to do. It has capitals. It has all the other components which all really jell well together and people when they come together, they understand these things and they know what they are doing. So, it gives clarity. That's what I think integrated thinking should be (PAB2-1).*

The same participant also shared a view that INT should flow from the top and unless positioned in a top level, the broader view or the integrated view cannot be achieved:

*INT should come from the top. When you don't have the buy-in from the top and the top management expects something else from you, then it's really difficult for people to get together and achieve that... Let's say if top management has very short-term view in term of profit or performance, then people will be driving with that agenda (PAB2-1).*

A few others also shared similar thoughts relating to INT as board-level thinking or strategic thinking as follows:

*Integrated thinking is in the BODs (MT1-1).*

*It's the integrated thinking across the Board (DH3-1).*

*May be lot of accountants might not understand that way because that kind of strategic thinking is not coming from accountants' point. Those are coming from the board (B3-1).*

*The way I think of an integrated report is a correct representation as to what the board of directors are doing so, to me, that's where the thinking part links in (ACAIN1).*

Enlightened leadership at board and/or chief executive officer level is identified as one of the key drivers of integrated thinking mentioned by respondents in the survey conducted by SAICA in South Africa in 2015. Organisations need INT to empower the board and

management to make informed decisions ensuring the long-term sustainability of organisations through the sustained creation of value for stakeholders (SAICA, 2015).

In elaboration, the framework states that INT takes into account the connectivity and interdependencies between the range of factors that affect an organisation's ability to create value over time, including the capitals that the organisation uses or affects and the critical interdependencies, including trade-offs between them (IIRC, 2013b). In a similar line, some of the respondents perceived that INT is engaging with different capitals:

*INT means how we consider creating value for not only for financial things and not only to earn financial nature benefits, but how we support other capital components and all other stakeholders. How we help to other stakeholders (ACASL2).*

*Earlier we just prepared the reports. Now we have to do lot of thinking. How we are going to manage this capital, how we are going to utilize this capital and how we are going to use this capital. I think by using these capitals we can evaluate our business. Then all that we can connect to our strategies. We have strategies, then we implement and then we can see how we are connected with all these capitals (HT1-1).*

There should be a collective effort for mutual survival of the organisations, society and environment. In doing so, organisations need to have a mindset towards INT, that is, engaging and maintaining capitals. As identified in the framework, an important element of integrated thinking is the recognition and management of the key capitals, or resources and relationships, that the business depends on.

And those resources and relationships are essential to how a company creates value, causing its longer-term success and viability. Therefore, in alignment with the IIRC definition, INT is about active consideration of those resources, relationships or capitals and how they are often interdependent. Thus, it is about using that to inform the way that an organisation runs the business. In that sense, INT will lead to integrated decision-making and actions that consider the creation of value over the short, medium and longer term rather than just a traditional focus on somewhat short-term and financially oriented performance.

While financial capital has always been fundamental to many organisations, over time many organisations have grown to realise that there are other forms of capital which organisations have focused on and managed. The framework stated the other forms of capital, such as human, intellectual, social, manufactured and natural capital, create value

for all their stakeholders. The framework also asserted that the more integrated thinking is embedded in the business, the more likely it is that a fuller consideration of key stakeholders' legitimate needs and interests is incorporated as an ordinary part of conducting business (IIRC, 2013b, p.18).

In implementing INT, what organisations must realize is that they need engagement with these capitals which are equally central to the business. For example, organisations need the engagement of their employees and employees need the support of the organisation. These capitals are provided by different stakeholders. The present study's theoretical model to conceptualise INT in practice (in section 4.4.2.1 of Chapter 04) is intended to play a significant role in implementing INT in organisations. This model employs a stakeholder approach to engage, manage and maintain different capitals in organisations.

Three respondents shared their views relating to the implementation of INT:

*Integrated thinking has to be brought into action. That's good question. What we can do, nothing, we have to change mindset (ACASL1).*

*May be one way of institutionalising is putting to the board agenda somewhere, you know like talking about business model and talking about challenges in the business model and having an agenda item (REG1-1).*

*Balanced scorecard approach can be taken to implement (ACASL1).*

While one of the academics justifies the importance of the balanced scorecard approach in implementing INT, the other brought opposing views for such approach as follows:

*But Balanced scorecard is not an external reporting tool or anything. It is an internal analysis tool. So, there is a problem of linking that to INT (ACASL2).*

In their book entitled 'Integrate: Doing Business in the 21st Century', King and Roberts (2013) suggested that all companies are dependent on good relationships with key stakeholders and other essential resources to make money. They described integrated thinking as seeing the connections of the resources and relationships, how they connect to the different functions, departments and operations in the company and getting the company as a whole working together in achieving the strategic objectives. They further stated that the interrelated, interconnected and interdependent nature of many of these resources and relationships is currently not explicitly recognised by boards.

From the guidance given in the framework and comments made in articles, it is clear that INT is a culture or attitude that should begin at the board level and should determine the



board's agenda and method of operating, and it needs to cascade down and become part of the DNA (Al-Htaybat & von Alberti-Alhtaybat, 2018) of the whole organisation (SAICA, 2015).

One of the academics shared that in one of the IR workshops he conducted at CASL, he tried to convince that INT needs to be interpreted in relation to the sustainability. He shares that:

*.... referring to stakeholder theory and stakeholder agency theory, I tried to convince that integrated thinking is something we have to do for the sustainability of our business organisations (ACASLI).*

A few other studies (Churet & Eccles, 2014; Knauer & Serafeim, 2014; Oliver et al., 2016) also assumed that the concept of integrated thinking is directly linked with sustainability, relating IR to long-term financial and non-financial performance. The A4S Project, one of the prime founders of IIRC, defined integrated thinking as “embedding sustainability into decision-making and strategy” (A4S, 2010a). However, this description is still different to that of the IIRC definition of INT (Feng et al., 2017). From the IIRC's perspective, integrated thinking is primarily about organisations creating value using six capitals, rather than about addressing social and environmental sustainability in particular (Black Sun, 2015; Feng et al., 2017; Tweedie & Martinov-Bennie, 2015).

The present study confirms Feng et al. (2017) that in the absence of a solid conceptual foundation, practitioners and other key actors in IR have chosen to self-interpret what integrated thinking means in light of their own experience and context.

Despite the different perceptions on INT, a few respondents expressed that the organisations they represent had adopted integrated thinking and that it is not something new to practice. For example, one of them shared:

*INT is there in any organisation. If you don't think interestedly you are not a good businessman. So, INT is there... The corporate vocabulary started picking up this word called 'integrated thinking'. So that's why people talk a lot about it (MT1-1).*

A similar idea was shared by three others as follows:

*The term integrated, or that particular term that you would have used but how the business operates is the similar way to that. You might not see as taking integrated reporting also or integrated thinking those things, but the action that we take is an integrated way (HT1-1).*

*What I really feel is that, in any organisation if your heart is there with INT, then you do not have to kind of extra effort for you to generate integrated report...For an example, the kind of thinking and the culture that you created, kind of risk appetite, kind of reputation, like that there are number of things which have embedded in organisations. The issue is whether you documented or not. So that is the issue. It is not that if you do not have integrated thinking you cannot survive in the organisation, and in the environmental context that you live...those may not be pretty well documented. Most people tried to document it since there is a push coming from the IR. (B3-1).*

*Some organisations actually are at the forefront of integrated thinking and reporting and I think they are doing really well (PAB2-1).*

As voiced by the participant MT1-1, the corporates started picking up the term INT in their vocabulary soon after the emergence of IR. SAICA (2015) confirmed this idea, stating that the term ‘integrated thinking’ was coined by the IIRC (SAICA, 2015). Further, the IR agenda, and the embedded integrated thinking, is promoted as a wider organisational reporting philosophy which is supposed to bring a shift in the traditional silo reporting and integrate various organisational reporting platforms (Haji & Hossain, 2016; IIRC, 2013b).

Although this view was not shared by all respondents, the above three respondents expressed the view that well-managed organisations would naturally have implemented integrated thinking and that was why they were successful. Similar results were found in the study conducted using top 100 companies listed on the JSE by SAICA in 2015. INT being the major focal point of their study, Al-Htaybat and von Alberti-Alhtaybat (2018) illustrated INT as a naturally developed practice and their case organisation being a “natural integrated thinker” (CGMA, 2014).

Through the above discussions, the present study attempted to gain an understanding of how organisations perceive integrated reporting and integrated thinking and found that what INT means remains unclear in Sri Lanka. The next section further investigates the study purpose, exploring how integrated reporting and integrated thinking practices foster each other in establishing a perspective on the current state of IR practices in Sri Lanka.

#### **9.4 Relationship between IR and INT**

The IIRC’s long-term vision is a world in which integrated thinking is embedded within mainstream business practice in the public and private sectors, facilitated by IR as the corporate reporting norm. As to date, only a few studies have investigated the link or the association between a well-established INT concept and IR (Al-Htaybat & von Alberti-

Alhtaybat, 2018; Dumay et al., 2016). However, this study presents that some professional research also provides evidence for the close relationship between IR and INT.

Churet and Eccles (2014) suggested that IR is only the tip of the iceberg and it is the visible part of what is happening below the surface, namely INT. SAICA (2015) revealed that, INT – based on the framework's description of an integrated report to gain more insight as to what integrated thinking is, namely the engine that drives value creation by integrating all of these factors and as a by-product – enables organisations to describe how they create value in a clear and meaningful manner in an integrated report.

When integrated thinking is applied, the integrated report becomes more than the output of a process but, rather, a critical milestone in the continuous journey of improvement in decision-making, accountability and communication (IIRC, 2016c). Similar thoughts were shared by two respondents in an ARPC, who remarked that IR is the last step of an integrated thinking process:

*What we have tried to say is that IR has to be the last step of an integrated process... What you are trying to produce at the end of the day is this integrated report, by definition for us is how the company works as a whole (ARPC2-2).*

*We think integrated reporting is really the last step of the integrated thinking process, where everything in the company must fit together like a puzzle and work in that way. And then we translate into word and put in numbers and show the connectivity. And show how everything fits beautifully in an integrated report (ARPC2-1).*

IIRC claimed that IR is a process founded on integrated thinking (IIRC, 2013b, p.33). CASL (2019) also claimed that INT and IR are widely recognised as a process of creating corporate value and sustainability to organisations, and are influencing the way organisations think, plan and report the activities of their businesses.

In an interview published on the IIRC website, Sarah Grey, the Markets Director at IIRC, explained critical integrated thinking and also mentioned that if you speak to any expert or practitioner about integrated reporting, they will tell you that without 'integrated thinking', the reporting is limited and unlikely to hit the mark with investors and other stakeholders. According to her:

INT is really what's going on within an organisation to understand how value is created over time. Reporting is really the end game, the outcome of INT (IIRC, 2019).

One of the other interesting and important aspects emphasised by the interview participants was how they perceived the relationship between these two key concepts of INT and IR. These responses were derived when the interviewer asked the question: “Is it that IR drives integrated thinking or that integrated thinking drives IR?”

As elaborated in the publication of the Italian Network for Business Reporting (Network Italiano Business Reporting – NIBR) (2016), it is much like the riddle: ‘which came first, the chicken or the egg?’ It says INT is integral to the concept of IR and it is impossible truly to embrace IR without embracing the concept of integrated thinking throughout the organisation. It further illustrates that INT came first with IR being its natural extension.

Related to the above, a clear and interesting explanation was given by one of the respondents in an early adopter of IR as follows:

*It's like this. It's a difficult question to answer if you use the word "drives". I don't think that anything drives the other. Definitely, the basis for integrated reporting is integrated thinking. Because when you conceptualise what is material to you and so on, that is integrated thinking. So the integrated report is conceptualised with trying to understand integrated thinking. But if you asked me whether IR "helps", not "drives" integrated thinking, I would say yes. When you do reporting you start seeing a new world actually. If you have something in your mind and when it is not put on paper, the better things may not come. Rather than remaining it in your mind. You start seeing gaps when you report. But integrated report is largely depended on integrated thinking that is what I say...I would not say one drives the other...but you cannot do an integrated report if you do not understand the integrated thinking in the organisation. Can you? I do not think (Interviewee MT1-1).*

He further stated that:

*What you find in an integrated report is not a mirror of integrated thinking. But content of the integrated report is largely determined by integrated thinking. It's not exactly mean that integrated thinking is there. But it is the basis of what is being reported (MT1-1).*

The mission of IR is not only to provide guidance to companies' intent on communicating their integrated thinking, but also to encourage companies to develop integrated thinking in the first place (Knauer & Serafeim, 2014). A similar thought to the above was also been expressed by one of the academics:

*Reporting is summarising that impact of integrated thinking. How we present the result of our integrated thinking. Isn't it? (ACASL2).*

Affirming NIBR (2016), during the interviews it was found that there is no right answer for the question of which comes first, INT or IR. However, the majority (12 respondents)

viewed that INT drives IR as IIRC anticipated in its vision. As stated in the framework, over time, IR will become the corporate reporting norm, which will be delivered by the process of integrated thinking, and the application of principles, such as connectivity of information, no longer producing numerous, disconnected and static communications. Surprisingly, the interview data also found some opposing views to the above, as some (only three) viewed that IR drives INT. For example:

*So without integrated thinking you can't simply have integrated reporting...And when we do integrated thinking it will automatically be reported. That's why even IIRC guideline says that integrate reporting is embedded in integrated thinking. They believe it (ACASL1).*

Among those who expressed that INT leads IR, the following participant stressed the point that INT cannot be aligned in the way organisations report:

*What you are trying to do here is, again you trying to look it at a different perspective. As accountants we always give the priority to the IR. What I am trying to say here is that, this is not the case. It will never happen that way. That will disturb the business model and the governing bodies when you are trying to align your thinking in the way that you report. NO. You cannot align according to the integrated report. Thinking, the business culture, the climate, the risk appetite, corporate values should be reflected in the IR. That is all (B3-1).*

He further elaborated that:

*When you are trying tail to wag the dog is going to completely destroy value on INT and that will destroy the comfort of the governing body. So what I am trying to say here is it is not the tail that govern the dog, but the dog will govern the tail. It is the INT, business culture, business values and climate will govern the reporting, and the reporting cannot govern these. What will happen when you are trying to dominate the reporting and when you are trying to get an idea whether reporting influence your thinking, reporting will mostly negatively impact on the minds of people who govern the organisations (B3-1).*

The above emphasised the discussion point that thinking cannot be driven by the reporting.

Although some organisations may start by increasing integrated thinking, for example, through aligning strategy to value creation and performance across their business, others have begun with the integrated report, in the expectation that this would drive strategic alignment and integrated thinking (NIBR, 2016). Sharing a similar idea, the voice from the ARPC's point of view was as follows:

*I don't know if you have noticed this. But integrated reporting often has now become as the first thing and the only thing then. To us it's difficult to capture how a company would work in an integrated way, simply for a report from the*

*outside it's very difficult for us. They don't know how to think in integrated (ARPC 2-1).*

A few other respondents stated that they moved on to IR with INT, and they have used IR as a tool to present it as corporate reporting. In other words, the idea behind these views was INT drives IR.

*In PW1, we had integrated thinking in-house. Most of the decision outcomes came through INT process. It is not that our thinking process changed because of this reporting. Nothing like that. Though we have INT, some of the information may not be readily available to publish...In decision making process of course we have to follow a certain process or a procedure. It is not a written procedure. And those are not in a report form. But we can develop this to a proper format where everything is linked (PW1-1).*

*My view is integrated thinking drives the reporting. First, we'll have to think and then only it drives, then only we capture everything and integrate the things and go forward (HT2-1).*

*It is not that integrated framework lead for us to thinking, it's already in built in us, then it's easy for us to think in that form. It's not start from there and we are going think because of integrated reporting. That's not the way. It's already there. We started having a different language to report. Having a new diagram to report things. Then this excel everyday they are developing new diagrams. That's something integrated reporting brought into our attention we embrace it and we thought that's the way to go. Annual report is actually a matter in our calendar. This is the way we are doing business (DH2-1).*

Confirming the above, the following ideas were also produced:

*We have to integrate the business first before reporting. Otherwise what is to be reported? Then it'll be just a report. If you are not practicing within your company or in your group of companies, it'll be just another document (TLC1-5).*

*In terms of thinking that we converted into the reporting style (DH3-1).*

*INT will lead to IR. I think we should start with INT and we need to have a holistic view about the company and how value can be created and how you can use this six capitals to create value, may not be monetary value, but non-monetary values that can be converted into monetary values in time to time, when you develop it for some time and then the return will come after some time, so that has to be the direction and the way. I think that is the way. INT should lead to IR, but we have started in the other way around, suddenly we have reported and landed this concept INT (PL3-1).*

*If they do the right thing, the next thing missing is that they do not come out with it. They have to make it public and they have to tell it to the people who will appreciate that company and value of the company, based on that thinking and based on that strategy and based on that whatever the operations that they do. That was the thinking behind this report and that is what we have been telling all our clients (ARPC1-1).*

*First integrated thinking and then integrated reporting. Once we think in that integrated way then that's the way of presenting through reporting. IR is a good tool to present the way we perform. That's the way of presenting the results of integrated thinking. Thinking and reporting. Not reporting and thinking (ACASL2).*

These results affirmed the study conducted by SAICA (2015), which found that all the executives that returned questionnaires indicated that the organisations they represent had adopted integrated thinking at least partially and all the non-executive directors had seen evidence of integrated thinking.

The majority of the respondents emphasised the importance of INT and that reporting has no value without integrated thinking.

*It's [INT] really necessary. But the thing is people are now merely only reporting, not really thinking. Because I think IR is a sub part of integrated thinking... But they do not really know what they are really doing or if it is actually leading to integrated thinking (PAB2-1).*

*Reporting cannot do anything. In reporting, people cut and paste and do certain things to win awards (B3-1).*

*Most of our companies are involved in integrated reporting just for reporting purposes (TLC1-2).*

*There is no integrated thinking is presented, they are just presenting it. Integrated reporting should be of how this integrated thinking converted in to reporting. First, they have to think, then how to report it. But what happens is just report, without thinking (ACASL2).*

Therefore, according to the above statements INT is the basis for IR (IIRC, 2013e). To translate integrated thinking into IR, the organisation should convey a holistic view of strategy, governance, performance and prospects (IIRC, 2013e).

Although many participants perceived a relationship between IR and INT as above, one forwarded a different idea, mentioning IR and INT as being two different things. He stated that:

*I feel that they are two different things. But integrated thinking, in the way I explained it was that it's encompassing the other divisions as well, in your thinking, not only thinking about one particular division, but to look at the thoughts of the others as well, that is to put it into one box in other words. So what I think is, through integrated reporting, you can give a further boost to this report, a further improvement (TLC1-1).*

The participant from the governing body for IR in Sri Lanka forwarded a different perception on the relationship between INT and IR. Despite the majority's impression that integrated thinking drives IR, he was doubtful on the integration between INT and IR:

*That sort of integration between thinking and reporting to the best of my knowledge is not happening. Reporting is very independent thing. The whole process is not there. But even IIRC people will say that it's ok you have to start here [IR], but to get here you have to do that [INT] later. Suppose after some time you do the report and it might go backwards in to thinking (REG1-1).*

Further, his idea also claimed that some organisations may start with IR and then move onto INT. This perception opens the discussion for the next section which provides participant insights as to how IR can drive INT. Due to the close relationship between these two concepts integrated reporting and integrated thinking, it is worthwhile looking at this inverse relationship.

*Actually, I always believe that reporting drives what you should do also. All the people may don't like to hear it. Reporting improves other things...If you take sustainability for example, reporting drives good practices in sustainability. Because when you start reporting only you will start seeing a new world. Reporting is a very intense exercise. So similarly in integrated reporting too. You start seeing gaps and you start seeing lot of things (MT1-1).*

*So it's both ways I think. But the ideal situation is what you are trying to put in reporting is what is happening in the organisation (ACASL1).*

Integrated thinking is facilitated through integrated reporting because it requires senior executives and board members to think (long term) about their business model, how they create value and to whom, material issues, risks and strategy together, which gives integrated reporting the potential to effect change (Adams, 2015, p.23).

However, IFAC holds a different idea communicating that integrated thinking is the pillar for IR. Mats Olsson, the IFAC Small and Medium Practices Committee Deputy Chair, discussed how integrated thinking as an important aspect of integrated reporting helps businesses understand the value they are creating, financial value as well as value for society and employees. He shared that:

What we seem to forget is the pillar almost the foundation done for IR is the INT. And INT really drives business development. One could say that it is a way of looking at how the business you run affects your stakeholders. You look on the value you create, not only short-term profit, but value for society, employees etc. If you can identify these values, you have a more holistic approach when setting your strategies and business plans. You will probably not only make money on a short-term basis but also run a business which is doing well for all concerned. A business that is really sustainable (Olsson, 2017).



If businesses can identify these values and use a holistic approach when setting strategies and business plans, they will not only profit in the long term but attain a business that is truly sustainable.

When this idea was shared with one of the early adopters of IR in Sri Lanka, questioning whether INT has built the pillar for IR in B1, the interviewee's perception was as follows:

*I'm thinking in other way. My idea is first you have to initiate reporting, integrated reporting, then only you can easily convey and convince to others and guide them to think in an integrated way (B1-1).*

He further emphasised that companies cannot initiate INT and they should initiate with the reporting side and then take others' ideas through integrated thinking:

*Just integrating the principles will not happen unless you quantify and report. Reporting is the first step, integrated ideas come second way. Then only people will open eyes and see, yes what these guys telling are true, then only the integrated thinking coming in. Isn't it? Otherwise nobody will think in integrated way (B1-1).*

His idea was elaborated using an example as follows:

*One of my guys, he went to UK and he has gone by train from London to some other European country. In the train ticket, they have clearly mentioned the emission per-head, and he bought that ticket to me. They have clearly quantified carbon emission from each passenger and printed on the ticket. So then they get some mental pressure that I should reduce, something like to how to contribute the reduced carbon emission. Then only he understood and then he thanked me later. But very first day he argued with me saying why you want these things, unwanted things. What is the contribution we get end of the day to the bottom line? At the end of the day our bottom line is depending on the environment. That's where integrated thinking comes in (B1-1).*

Emphasising the above, similar thoughts were also shared by two academics as follows:

*When we bring kind of a guideline and disclosure requirements, then for disclosures you have to do reporting, we have to produce integrated reports, then first we have to do that. Bringing it [reporting] to the action. Therefore, in that sense integrated reporting can lead to action, action is thinking...In integrated reporting, if it is properly guided, say for an example, how we have developed the human resources during the period, you have to report. So, if we report something then at least next year we have to do something. Then that will lead to do some human resource developments. Therefore reporting can guide thinking (ACASL1).*

*Integrated reporting is changing or trying to change the whole way that the organisation thinks and it's also changing the way that the company operates and thinks, that was the idea (ACAI2).*

CIMA published a report called ‘Powering the Next Generation of Business’ which advocates a new initiative called integrated thinking, which goes beyond integrated reporting to be a way of fundamental business practice that is much broader, interconnected and forward-looking than ever before and will help organisations to improve decision making and facilitate their integrated reporting (CIMA Dialogue, 2014).

In the launch of that report, CIMA conducted a dialogue named ‘Exploring integrated thinking’ with Ian Jameson, the Programme Lead of the Corporate reporting dialogue at IIRC, Larissa Clark, the Director of Professional Practice, Accounting at EY, and Jacob Buys, the Technical Accounting and Reporting at Eskom (a South African electricity public utility established as Electricity Supply Commission (ESCOM)). In that discussion, they looked at what INT is, how it goes beyond the IR, which we have come to know so well over the last few years. When it is asked what exactly this INT is and what it means in the broader landscape, the Programme Lead of the Corporate reporting dialogue IIRC communicated that:

Well I think INT is clearly something that need to evolve and IR as we see it is been an opportunity, or a Trojan horse to INT. Lot of organisations are still struggling with reporting. We believe that once they start doing IR, we believe the next sort of step is to get into INT to an organisation. That’s how we can truly see how things connectivity of all business activities to contribute to value creation (CIMA Dialogue, 2014).

There, integrated reporting is identified as the Trojan horse to get integrated thinking into the organisations. Nevertheless, the Technical Accounting and Reporting at Eskom shared how this has been challenging in their experience when rolling out the start of IR. This idea is similar to what was shared by the participant at MT1 as above.

When we talk about INT, it talks about IR. You actually need go back to your basics and see; how do you establish your basics in your business. And that will facilitate your integrated report (INR). It is not the fact that at the end of a year we prepare an INR. But your information should basically come through your processes that you do on the regular basis (CIMA Dialogue, 2014).

Yet again, the Director of Professional Practice, Accounting at EY believed that IR and INT have a cyclical relationship:

Integrated report is a wonderful tool. People are going back and say actually we need to embed INT in our business, or else taking a step back and really looking at how to embed integrated thinking at your business or embed the reporting. It always come like a cycle that, better the one preaches the other. I think that there is lot of work that can be done in that area (CIMA Dialogue, 2014).

The IIRC publication ‘Creating value-The cyclical power of integrated thinking and reporting’ elaborated the value of integrated thinking as an integral component of IR (IIRC, 2016c). They see reporting and thinking as two sides of the same coin and both necessary to enhance connectivity in the organisation and enhanced communication on value creation. The cycle of integrated thinking and reporting, resulting in efficient and productive capital allocation, will act as a force for financial stability and sustainability (IIRF, 2013b, p.2).

INT enables organisations to understand the relationship between measuring, managing, and disclosing information to improve communication of their value creation processes (IIRC, 2013b, Venter et. al., 2017). It also leads to better integration of the information systems that support internal and external reporting and communication, including preparation of the integrated report (IIRC, 2013b).

The Handbook of NIBR (2016) tried to build the understanding that integrated thinking is firmly at the core of IR while urging everyone working to advance the adoption of IR. That Handbook described a five-stage model towards the integration of thinking and reporting with all forms of value creation. Based on that model, the four stages which determine the journey of integrated thinking are influenced by the fifth stage, that of the integrated report. Jack (2014) also presented six ways companies can adopt INT and decision-making processes that are fundamental to the creation of an integrated report.

The IIRC’s Background Paper for Connectivity (IIRC, 2013e) confirmed that INT is the basis for IR and IR in an organisation further helps to embed integrated thinking. Therefore, the processes of IR and INT are mutually reinforcing. IIRC (2013e) provided one illustration of the intended relationship between integrated thinking and IR (see Figure 9.1), in which IR is meant to make corporate reporting more transparent by making internal management processes evident to external audiences.



Figure 9.1: Mutually reinforcing relationship between integrated thinking and reporting (Source: IIRC, 2013e)

Thus, integrated thinking is a core concept of the IR framework (Feng et al., 2017; IIRC, 2013e; Tweedie & Martinov-Bennie, 2015). Professor Mervyn E. King, Chair Emeritus, International Integrated Reporting Council, explained why integrated thinking is such a necessary part of IR as follows:

INT is critical to develop a quality integrated report. Otherwise, you find there are unfortunately some reports exist at the moment labelled annual integrated reports. And always been a mindless of a checklist on the content elements and guiding principles which are contained in the framework. May be with my experience, when I read integrated reports, I can tell the quality of management, just by what the content of the integrated report is. So, INT is critical to an IR (King, 2015).

In a similar line to what Professor Mervyn King said, a respondent from a sustainability unit in one of the banks selected for the present study elaborated that:

*Sometime sustainability reporting helped to reduce the cost, improve processes. That I have seen in the sustainability reporting. But in the integrated reporting I'm yet to see that integrated thinking going into the management of an organisation (B3-3).*

Otherwise, as highlighted by Feng et al. (2017), with limited practical guidance to INT, by the IIRC and academic research, this could lead to a costly failed reporting exercise for organisations using IR and could confuse stakeholders about the content and purpose of the information in an organisation's report. They further found that the concept of INT is still obscure to many practitioners and the IIRC is still clarifying what INT means, and that the meaning of INT is fluid and evolving amongst reporting organisations and key IR actors. Despite the growing IR research, Feng et al. (2017) also claimed that not only the

practitioners but other key corporate reporting players as well have not yet fully conceptualised how IR and INT are interrelated.

Confirming NIBR (2016), the present study emphasises the importance of aligning the processes of INT and IR naturally, leading to an effective approach to produce the integrated report and at the same time, by doing the integrated report, organisations can become aware of the need to achieve integrated thinking and increasingly become engaged with this need.

## **9.5 Chapter summary**

This chapter aimed to understand how integrated thinking and IR enrich corporate reporting in Sri Lanka. The chapter highlighted the potential gap between the interpretations of what IR and INT mean to practitioners and other IR actors and the IIRC's agenda.

In so doing, this chapter explored how IR and INT have been internalised by IR practitioners and other IR actors (academics, auditors, regulators, professional organisations, annual report producing companies and annual report writers) with different interpretations and how they perceive the relationship between the IR and INT concepts. Findings unveiled that some organisations were practising INT internally before they adopted IR, whereas some others moved into INT through their IR. However, it was also found that INT and IR have a cyclical relationship between each other, enriching their corporate reporting practices.

The next chapter examines the level of IR disclosures of the selected organisations in terms of the IR framework, besides the growing trend of the IR adopters in Sri Lanka.

## **Chapter 10**

### **Extent and Nature of IR Disclosure Practices**

#### **10.1 Chapter introduction**

Addressing one of the research questions, this present chapter explores the extent and nature of IR disclosure practices of the publicly listed companies in Sri Lanka, based on a sample of 34 timely adopters of IR, using the disclosure index prepared in the present study. Indeed, the analysis discovers how IR disclosure practices of 34 timely adopters have contributed to their value creation process by providing a deep understanding of the level of adherence to the seven guiding principles (GPs) and the level of adoption of the eight content elements (CEs), as in IIRF, over the period of seven years from 2010 to 2016. Section 10.2 provides the analysis of the GPs, and the analysis of the CEs is presented in section 10.3. Analysis of multi-capitals is discussed in section 10.4. Finally, the chapter summary is given in section 10.5.

#### **10.2 Analysis of the guiding principles**

The analysis was based on the frequencies to determine the level of overall and individual attention to the GPs over the seven years. Frequencies were calculated based on the maximum score value attributed to each disclosure item and each year as well. In order to provide a better view of the behaviour of the IR disclosures, the analysis of the GPs is carried out in two categories, as, banking (of 17 PLCs in the banking, finance and insurance sector) and non-banking (of 17 PLCs representing nine other sectors). The overall behaviour (of 34 PLCs) is also presented.

##### **10.2.1 Disclosure of GPs by PLCs in the banking sector**

Table 10.1 shows the summary of the 17 banking companies' year-wise subtotal scores and frequencies assigned to each of 44 individual disclosure items which describe the seven guiding principles stated in the international IR framework. For example, the year-wise subtotal score (which is 21) of the first guiding principle (GP1) strategic focus and future orientation, is explained by seven individual index items (see Appendix 6G) into a maximum score value of '3' for one company. Thus, for the 17 banking companies, the year-wise sub total score is  $21 \times 17$ , which is 357. The year-wise subtotal score for seven

GPs varies depending on the number of individual index items carried by each GP. Hence, the total score for all 44 individual items by 17 banking PLCs is 2244 for each year.

Table 10.1: Level of disclosure of guiding principles (year-wise) by 17 banking sector PLCs

| Guiding Principle                                    | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|------|------|------|------|------|------|------|
| <b>GP1-Strategic Focus and Future Orientation</b>    |      |      |      |      |      |      |      |
| Subtotal score= 21*17                                | 172  | 179  | 198  | 236  | 268  | 279  | 281  |
| %  | 48.2 | 50.1 | 55.5 | 66.1 | 75.1 | 78.2 | 78.7 |
| <b>GP2-Connectivity of Information</b>               |      |      |      |      |      |      |      |
| Subtotal score= 27*17                                | 165  | 172  | 180  | 195  | 241  | 285  | 308  |
| %  | 35.9 | 37.5 | 39.2 | 42.5 | 52.5 | 62.1 | 67.1 |
| <b>GP3-Stakeholder relationships</b>                 |      |      |      |      |      |      |      |
| Subtotal score= 21*17                                | 108  | 134  | 167  | 203  | 289  | 295  | 287  |
| %  | 30.3 | 37.5 | 46.8 | 56.9 | 81.0 | 82.6 | 80.4 |
| <b>GP4-Materiality</b>                               |      |      |      |      |      |      |      |
| Subtotal score=15*17                                 | 75   | 80   | 97   | 99   | 206  | 218  | 208  |
| %  | 29.4 | 31.4 | 38.0 | 38.8 | 80.8 | 85.5 | 81.6 |
| <b>GP5-Conciseness</b>                               |      |      |      |      |      |      |      |
| Subtotal score=12*17                                 | 43   | 45   | 53   | 57   | 92   | 101  | 102  |
| %  | 21.1 | 22.1 | 26.0 | 27.9 | 45.1 | 49.5 | 50.0 |
| <b>GP6-Reliability and completeness</b>              |      |      |      |      |      |      |      |
| Subtotal score=21*17                                 | 115  | 133  | 144  | 152  | 167  | 175  | 177  |
| %  | 32.2 | 37.3 | 40.3 | 42.6 | 46.8 | 49.0 | 49.6 |
| <b>GP7-Consistency and Comparability</b>             |      |      |      |      |      |      |      |
| Subtotal score=15*17                                 | 162  | 166  | 168  | 175  | 189  | 196  | 199  |
| %  | 63.5 | 65.1 | 65.9 | 68.6 | 74.1 | 76.9 | 78.0 |
|  |      |      |      |      |      |      |      |
| <b>Total score for 44 items=132 i.e. 132*17=2240</b> | 840  | 909  | 1007 | 1117 | 1452 | 1549 | 1562 |
| %  | 37.4 | 40.5 | 44.9 | 49.8 | 64.7 | 69.0 | 69.6 |

Although the level of attention to disclose GP1, strategic focus and future orientation, remained at a lower score of 172 (out of 357), with a 48% disclosure in 2010, the disclosure level showed a continuous improvement over the seven years, reaching a level of 79% of disclosures in 2016 (see Table 10.1). Similarly, the level of attention to GP2, the connectivity of information, also moved from a lower percentage of 36% in 2010 to 67% in 2016. The same upward trend was followed by GP7, consistency and comparability, which reached a disclosure level 78% in 2016 from 64% in 2010. However, conciseness (GP5) and reliability and completeness (GP6) carried the lowest disclosure levels (less than 50%) during the seven-year period, but also indicated improvements following increased level of attention from 21% to 50% and 32% to 50%, from 2010 to 2016, respectively. With relation to the remaining guiding principles, stakeholder relationships

(GP3) and materiality (GP4), their upward trend (over seven years) was disturbed with slight variations caused in the year of 2016. The reasons for such drop in value in 2016 was found in one of the insurance companies' non-disclosures of the IR disclosure items of 3.1 to 3.3 and 3.5 in GP3, stakeholder relationships and 4.1 to 4.3 and 4.5 in GP4, materiality (please see Appendix 6G for disclosure items). These items were found with the score values of '3' and '2' in the year 2015. Notwithstanding, it was notable that GP3 and GP4 recorded the highest frequencies throughout the seven-year period, especially from 2014 onwards, reaching a higher level of disclosure of more than 80%.

In precis, throughout the study period of 2010 to 2016, the 17 banking sector PLCs were able to progress from a lower level of IR disclosure of 38% to a moderate level of IR disclosure of 70% relating to the seven guiding principles.

Table 10.2: Percentage of disclosure of guiding principles of 17 banking sector companies

| <b><u>Guiding Principle</u></b>        | <b>Year-wise averages of 17 banking sector companies</b> |             |             |             |             |             |             |
|--|--|-------------|-------------|-------------|-------------|-------------|-------------|
|  | <b>2010</b>  | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> |
| Strategic Focus and Future Orientation | 48.18  | 50.14       | 55.46       | 66.11       | 75.07       | 78.15       | 78.71       |
| Connectivity of Information            | 35.95  | 37.47       | 39.22       | 42.48       | 52.51       | 62.09       | 67.10       |
| Stakeholder relationships              | 30.25  | 37.54       | 46.78       | 56.86       | 80.95       | 82.63       | 80.39       |
| Materiality                            | 29.41  | 31.37       | 38.04       | 38.82       | 80.78       | 85.49       | 81.57       |
| Conciseness                            | 21.08  | 22.06       | 25.98       | 27.94       | 45.10       | 49.51       | 50.00       |
| Reliability and completeness           | 32.21  | 37.25       | 40.34       | 42.58       | 46.78       | 49.02       | 49.58       |
| Consistency and Comparability          | 63.53  | 65.10       | 65.88       | 68.63       | 74.12       | 76.86       | 78.04       |

Table 10.2 illustrates a conditional formatted tabular view of Table 10.1, which easily spots trends and patterns in the data using colours to visually highlight important values. It applies a 'green, yellow and red colour scale' to a range of cells. The colour indicates where each cell value falls within the range of frequencies of 'high, moderate and low level'. Following Ruiz-Lozano and Tirado-Valencia (2016), the study adopts the rule of thumb of frequency level, where if it is 80% or more is high frequency, 50% to 80% is moderate level and less than 50% is low frequency. At a glance, it can be seen that during 2010 to 2013, the majority of the GPs carried a lower disclosure. From 2014 onwards, four (GP1, GP3, GP4 and GP7) out of seven guiding principles moved towards the higher level



of adherence, while GP2 tried to make its progression with a moderate level of responsiveness. On the other hand, GP5 and GP6 remained at a low level even after 2014.

Overall, the level of adherence of the guiding principles can be further illustrated through the following Figure 10.1, along with the two periods ‘before’ and ‘after’ the incorporation of the international IR framework. Results led us to believe that the level of attention to guiding principles indicated a substantial increase in some of the GPs after the incorporation of IIRC framework (in December 2013) by the 17 banking sector PLCs from 2014 onwards. For the banking sector in Sri Lanka, the financial year is for a 12-month period from 1 January to 31 December. Confirming this, Senior Executive of ARPC1 mentioned the following:

*Because in SL as you know, there are two financial year ends. One is 31st December and one is 31st March. 31st December is only for banks and insurance companies. All other companies, including finance companies, plantations, and other business conglomerates, the year end is 31st March (Interviewee ARPC1-1).*

One of the significant findings is that, the incorporation of IIRF majorly impacted on three GPs, namely, materiality (GP4), stakeholder relationships (GP3), and strategic focus and future orientation (GP1). According to Table 10.2 and Figure 10.1, it is evident that the disclosure level of GP4 rocketed from a lower level of 39% in 2013 to a higher level of 81% in 2014. Similarly, in GP3, the moderate level of IR disclosures (from 57%) in 2013 improved to 81% in 2014. In GP1, the improvement of IR disclosures occurred within the moderate level, following an increase of 75% in 2014 from 66% in 2013, leading to a higher level of 79% in 2016. However, the upward trend in GP7 (consistency and comparability) over the seven years seems indifferent to the IIRF adoption by the banking sector companies. Hence, GP7 maintained a moderate level of disclosures throughout the seven-year period, showing 64% in 2010, 69% in 2013, 74% in 2014 and 78% in 2016. An equivalent behaviour is observed in GP6 (reliability and completeness), which seemed to be unresponsive to IIRF adoption and it is also demonstrated in a parallel line to GP7.

As in Figure 10.1, in terms of the level of adherence, while materiality was the most responded to GP among the banking sector companies, stakeholder relationship was the next highly reported GP. It is then followed by strategic focus and future orientation. Despite being the lowest reported GP among seven other GPs, conciseness also progressed from a lower frequency level of 28% in 2013 to a moderate level of 45% in 2014, following

the IIRF incorporation in 2014, and then rising to 50% in 2016. Based on Figure 10.1, the period 2011 to 2014, which shows the high fluctuation in reporting parameters, could be considered as a period of transition during which the selected 17 companies in the banking sector experienced most of the changes in their corporate reporting practices.

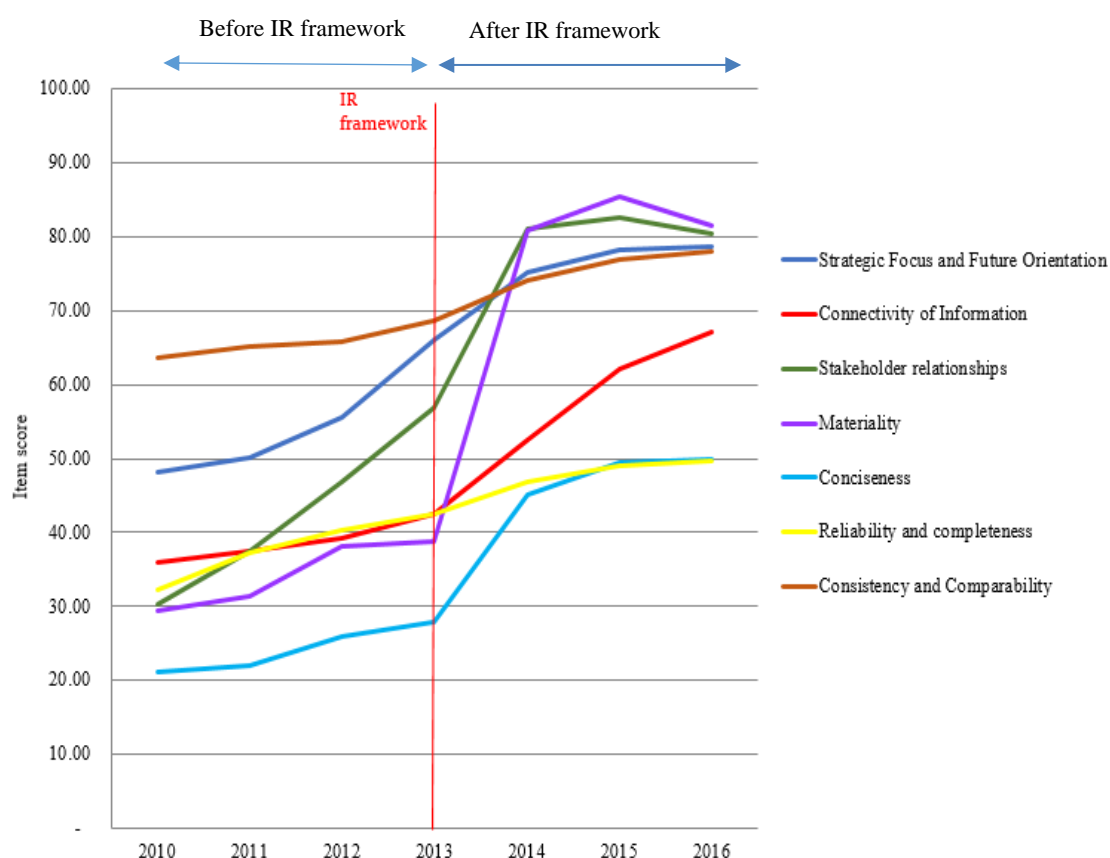


Figure 10.1: Overall disclosure of guiding principles by 17 banking companies (Source: Author)

In order to get a comprehensive understanding of the level of compliance of each of the guiding principles, an average rate of compliance was also computed (see Figure 10.2). To measure this average index, all seven principles were weighted in a balanced manner over the seven years from 2010 to 2016. The same mechanism was adopted by Ruiz-Lozano and Tirado-Valencia (2016) to weight in a balanced manner, in the absence to date of research which could establish a differentiated weight for each of them.

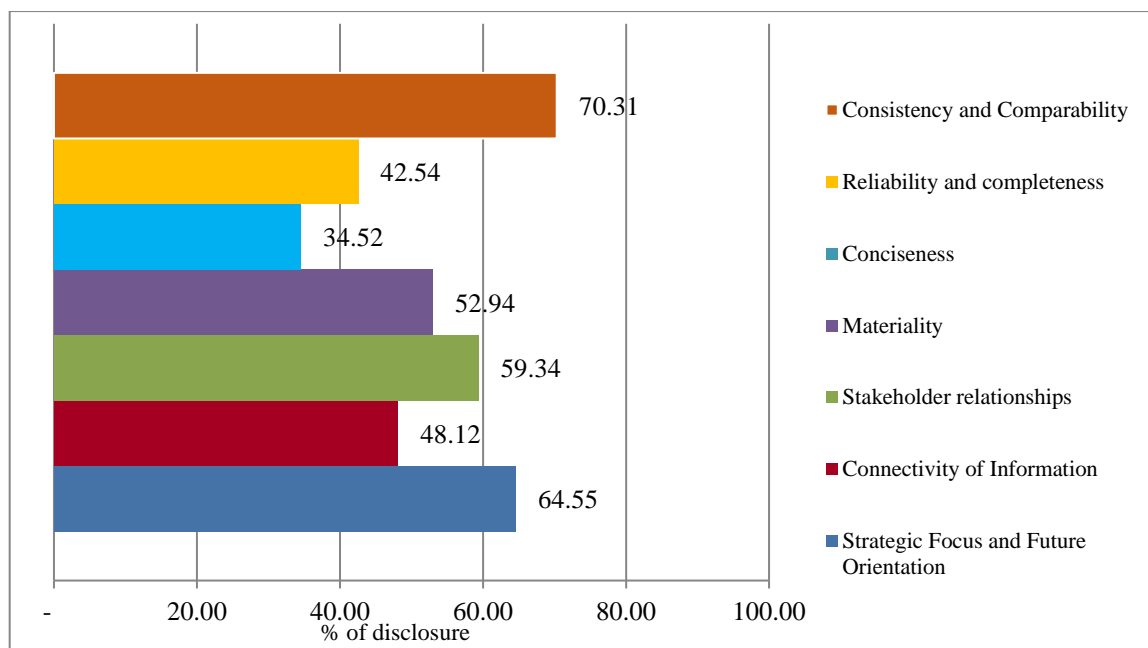


Figure 10.2: Average frequencies for each guiding principle (principle-wise analysis of banking sector)  
(Source: Author)

Figure 10.2 depicts the principle-wise average frequencies for each GP by 2016 for banking PLCs. Average frequencies were calculated based on the maximum score value attributed to each disclosure item over seven years for 17 banking companies (i.e.  $3 \times 7 \times 17$ ). For one company, the item-wise subtotal score of an individual disclosure item is explained by the maximum score value of '3' for seven years (which is 21). Thus, for the 17 banking companies, the item-wise sub-total score is  $21 \times 17$  (which is 357), and it remains fixed for each individual item. Then the average of averages of individual items of a GP decides the average frequency for each GP.

From Figure 10.2, it is evident that except for conciseness (34.5%), reliability and completeness (42.5%), and connectivity of information (48.1%) all the other four guiding principles carried a disclosure percentage within 50% to 80% owing to a moderate level of attention to GPs. Among those, consistency and reliability scored the highest frequency (70.3%) followed by strategic focus and future orientation with a 64.5% and then by stakeholder relationships with a 59.3% of disclosures by 2016. None of the GPs have demonstrated the high level of frequency, which is more than 80%.

## 10.2.2 Disclosure of GPs by PLCs in non-banking sector

Table 10.3: Level of disclosure of guiding principles (year-wise) by 17 non-banking sector PLCs

| Guiding Principle                                 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|------|------|------|------|------|------|------|
| <b>GP1-Strategic Focus and Future Orientation</b> |      |      |      |      |      |      |      |
| Subtotal score= 21*17                             | 168  | 183  | 200  | 213  | 246  | 248  | 260  |
| %   | 47.1 | 51.3 | 56.0 | 59.7 | 68.9 | 69.5 | 72.8 |
| <b>GP2-Connectivity of Information</b>            |      |      |      |      |      |      |      |
| Subtotal score= 27*17                             | 172  | 180  | 194  | 204  | 246  | 245  | 299  |
| %   | 37.5 | 39.2 | 42.3 | 44.4 | 53.6 | 53.4 | 65.1 |
| <b>GP3-Stakeholder relationships</b>              |      |      |      |      |      |      |      |
| Subtotal score= 21*17                             | 111  | 124  | 152  | 186  | 227  | 251  | 274  |
| %   | 31.1 | 34.7 | 42.6 | 52.1 | 63.6 | 70.3 | 76.8 |
| <b>GP4-Materiality</b>                            |      |      |      |      |      |      |      |
| Subtotal score=15*17                              | 69   | 68   | 83   | 105  | 139  | 158  | 170  |
| %   | 27.1 | 26.7 | 32.5 | 41.2 | 54.5 | 62.0 | 66.7 |
| <b>GP5-Conciseness</b>                            |      |      |      |      |      |      |      |
| Subtotal score=12*17                              | 27   | 27   | 32   | 44   | 65   | 74   | 81   |
| %   | 13.2 | 13.2 | 15.7 | 21.6 | 31.9 | 36.3 | 39.7 |
| <b>GP6-Reliability and completeness</b>           |      |      |      |      |      |      |      |
| Subtotal score=21*17                              | 146  | 150  | 158  | 165  | 182  | 183  | 179  |
| %   | 40.9 | 42.0 | 44.3 | 46.2 | 51.0 | 51.3 | 50.1 |
| <b>GP7-Consistency and Comparability</b>          |      |      |      |      |      |      |      |
| Subtotal score=15*17                              | 151  | 151  | 162  | 176  | 185  | 182  | 186  |
| %   | 59.2 | 59.2 | 63.5 | 69.0 | 72.5 | 71.4 | 72.9 |
|   |      |      |      |      |      |      |      |
| <b>Total score for 44 items=132*17=2244</b>       | 844  | 883  | 981  | 1093 | 1290 | 1341 | 1449 |
| %   | 37.6 | 39.3 | 43.7 | 48.7 | 57.5 | 59.8 | 64.6 |

As in the analysis of Tables 10.1 and 10.2, the summary of the 17 non-banking companies' year-wise subtotal scores and frequencies are shown in Tables 10.3 and 10.4. A similar upward trend is followed by the non-banking PLCs in comparison to banking sector PLCs in terms of the level of attention to the GPs except for GP6 and GP7 (see Table 10.3). While the upward trend is disturbed in GP6 in 2016, a similar drop in value was found in GP7 in 2015. In GP6, it was found that four companies' (one from construction and engineering, two from diversified holdings, and one from manufacturing sectors) disclosures relating to individual disclosure item 6.6 scored less in 2016 compared to 2015. The item 6.6 addresses the future-oriented information reported in the annual reports. In GP7, the low-value scores resulted due to low number disclosures in 2015 in item 7.2 and 7.3 compared to 2014. While one of the diversified holdings was found with fewer disclosures in reporting quantitative indicators (in items 7.3), the manufacturing company in the sample was found with low scores relating to item 7.2, which addresses the disclosure of benchmark data by companies.

Unlike the banking sector disclosures, it is notable that none of the GPs recorded the highest frequencies (more than 80%) throughout the seven-year period in the non-banking sector companies. However, the findings of the IR adopters in the non-banking sector revealed that these companies were able to enhance their level of GP disclosures from a lower level of 38% to a moderate level of IR disclosure of 65% from 2010 to 2016, confirming the results of IR adopters in the banking sector.

Table 10.4: Percentage of disclosure of guiding principles of 17 non-banking sector companies

| <b><u>Guiding Principle</u></b>        | <b>Year-wise averages of 17 non-banking sector companies</b> |             |             |             |             |             |             |
|--|--|-------------|-------------|-------------|-------------|-------------|-------------|
|  | <b>2010</b>  | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> |
| Strategic Focus and Future Orientation | 47.06  | 51.26       | 56.02       | 59.66       | 68.91       | 69.47       | 72.83       |
| Connectivity of Information            | 37.47  | 39.22       | 42.27       | 44.44       | 53.59       | 53.38       | 65.14       |
| Stakeholder relationships              | 31.09  | 34.73       | 42.58       | 52.10       | 63.59       | 70.31       | 76.75       |
| Materiality                            | 27.06  | 26.67       | 32.55       | 41.18       | 54.51       | 61.96       | 66.67       |
| Conciseness                            | 13.24  | 13.24       | 15.69       | 21.57       | 31.86       | 36.27       | 39.71       |
| Reliability and completeness           | 40.90  | 42.02       | 44.26       | 46.22       | 50.98       | 51.26       | 50.14       |
| Consistency and Comparability          | 59.22  | 59.22       | 63.53       | 69.02       | 72.55       | 71.37       | 72.94       |

The conditional formatted tabular view of non-banking IR adopters as illustrated in Table 10.4 indicates similar results to the banking sector analysis, where most of the low-frequency patterns and trends are identified during the period 2010 to 2013. This analysis follows the comparable results for the period from 2014 onwards in the banking sector companies.

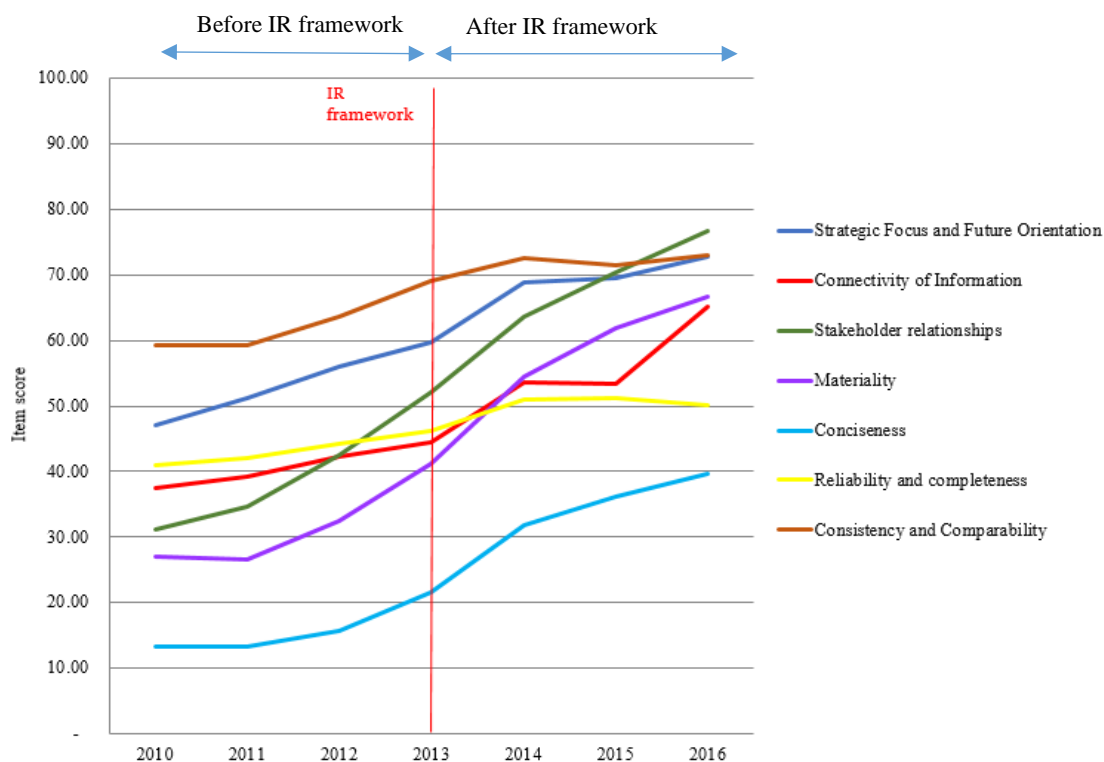


Figure 10.3: Overall disclosure of guiding principles by 17 non-banking companies (Source: Author)

Parallel to previous analysis of the banking sector, Figure 10.3 indicates that both banking and non-banking IR adopters were positioned at a somewhat similar level of attention to the corporate disclosures, except for the conciseness and reliability and completeness principles, at the beginning of the study period (i.e. in 2010). In 2010, while conciseness is located in a better position among the banking sector IR adopters, reliability and completeness is situated at a higher position with relation to the IR adopters in the non-banking sector. During 2010 to 2013, i.e. before the establishment of the IR framework, the pattern of the line graphs in Figure 10.3 illustrates a comparable behaviour to Figure 10.1. When analysing the trend of the GPs in the period after the IR framework, Figure 10.3 shows similar findings to Figure 10.1, where it is identified that the incorporation of IIRF majorly impacted on stakeholder relationships (GP3), strategic focus and future orientation (GP1), and materiality (GP4), confirming the banking sector results. Yet, the disclosure patterns of GPs in the banking sector indicate substantial changes in terms of the variations and its positions in 2016 of GP1, GP3, and GP4 compared to non-banking sector. For example, in terms of the level of adherence, while stakeholder relationship was

the most reported GP among the non-banking sector companies, it is then followed by strategic focus and future orientation, and materiality.

GP5, conciseness, was always low among the IR adopters in the banking and non-banking sectors, and it is located at a lower scale compared to the banking sector. Regardless of carrying the lowest level of attention by the IR adopters in non-banking sector till 2013, conciseness maintained its progression within the low-frequency level, improving from 13% in 2010 to 32% in 2014 following IIRF adoption, and then to 40% in 2016. Being unresponsive to IIRF adoption, a parallel behaviour is also observed in GP6 and GP7 (reliability and completeness, and consistency and comparability) in non-banking companies as in banking companies.

Figure 10.4 depicts the average frequencies of each GP for non-banking PLCs by 2016.

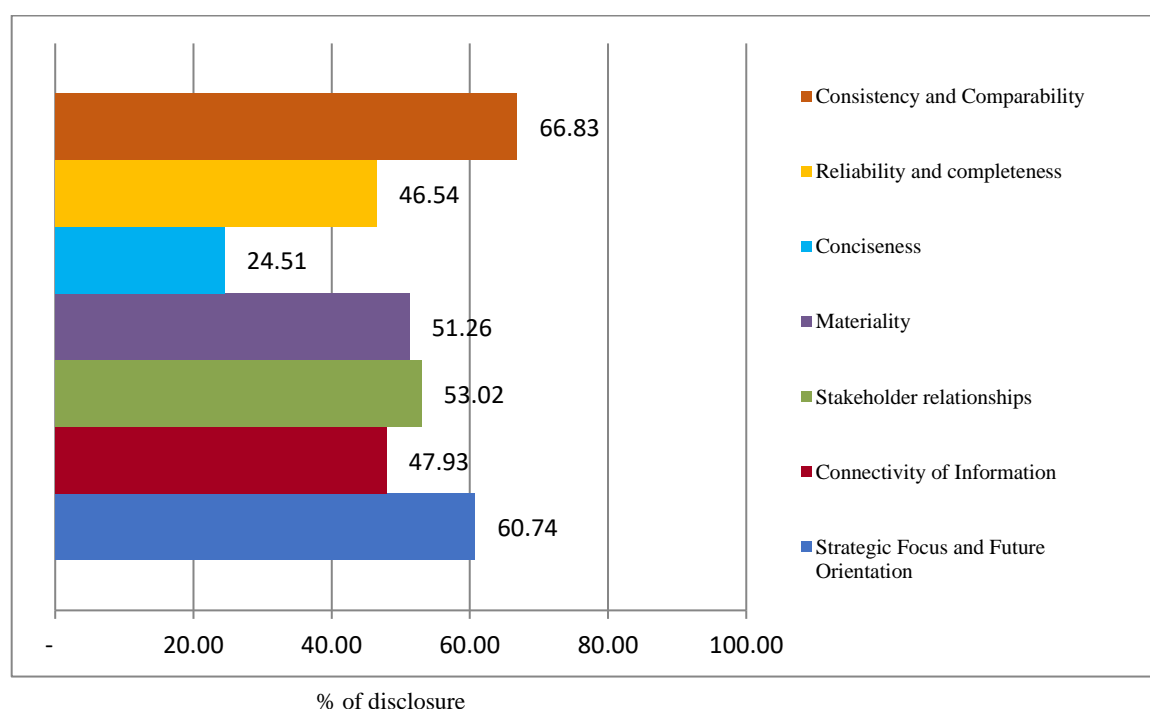


Figure 10.4: Average frequencies for each guiding principle (principle-wise analysis of non-banking sector) (Source: Author)

Not a single GP confirmed a high level of frequency which is more than 80%, here as well. Conforming to findings in banking sector PLCs, here also it is evident that except for conciseness (24.5%), reliability and completeness (46.5%), and connectivity of information (47.9%), the rest of the GPs performing within a moderate level of attention varying from 50% to 80%. Among these moderately disclosed GPs, the same order is identified as with banking sector IR adopters. In other words, the highest frequency was

scored by consistency and comparability (66.8%), next highest in strategic focus and future orientation, with a 60.7% and then by stakeholder relationships with a 53% by 2016.

Following the analysis of the banking and non-banking sectors, the overall picture of the selected sample of 34 timely IR adopters also shows a growing trend in the level of attention to the GPs over the seven years. These results are illustrated in Tables 10.5 and 10.6 and Figure 10.5. However, it is notable that there was a drop in value in 2016 compared to 2015 in GP6, reliability and completeness. And it is found with the lower scores for the items 6.3 and 6.6. Despite such drop in GP6, the overall attention to the seven GPs by the 34 sample companies was enriched from 37.5% (a lower level) in 2010 to 67% (a moderate level) in 2016 in year-wise analysis depicted in Table 10.5.

Table 10.5: Year-wise analysis of guiding principles of 34 timely adopters of IR

| <b>Guiding Principle</b>                          | <b>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>GP1-Strategic Focus and Future Orientation</b> |             |             |             |             |             |             |             |
| Sub Total score= 21*34                            | 340         | 362         | 398         | 449         | 514         | 527         | 541         |
| %   | 47.6        | 50.7        | 55.7        | 62.9        | 72.0        | 73.8        | 75.8        |
| <b>GP2-Connectivity of Information</b>            |             |             |             |             |             |             |             |
| Subtotal score= 27*34                             | 337         | 352         | 374         | 399         | 487         | 530         | 607         |
| %   | 36.7        | 38.3        | 40.7        | 43.5        | 53.1        | 57.7        | 66.1        |
| <b>GP3-Stakeholder relationships</b>              |             |             |             |             |             |             |             |
| Subtotal score= 21*34                             | 219         | 258         | 319         | 389         | 516         | 546         | 561         |
| %   | 30.7        | 36.1        | 44.7        | 54.5        | 72.3        | 76.5        | 78.6        |
| <b>GP4-Materiality</b>                            |             |             |             |             |             |             |             |
| Subtotal score=15*34                              | 144         | 148         | 180         | 204         | 345         | 376         | 378         |
| %   | 28.2        | 29.0        | 35.3        | 40.0        | 67.6        | 73.7        | 74.1        |
| <b>GP5-Conciseness</b>                            |             |             |             |             |             |             |             |
| Subtotal score=12*34                              | 70          | 72          | 85          | 101         | 157         | 175         | 183         |
| %   | 17.2        | 17.6        | 20.8        | 24.8        | 38.5        | 42.9        | 44.9        |
| <b>GP6-Reliability and completeness</b>           |             |             |             |             |             |             |             |
| Subtotal score=21*34                              | 261         | 283         | 302         | 317         | 349         | 358         | 356         |
| %   | 36.6        | 39.6        | 42.3        | 44.4        | 48.9        | 50.1        | 49.9        |
| <b>GP7-Consistency and Comparability</b>          |             |             |             |             |             |             |             |
| Subtotal score=15*34                              | 313         | 317         | 330         | 351         | 374         | 378         | 385         |
| %   | 61.4        | 62.2        | 64.7        | 68.8        | 73.3        | 74.1        | 75.5        |
|   |             |             |             |             |             |             |             |
| <b>Total score for 44 items=132*34=4488</b>       | 1684        | 1792        | 1988        | 2210        | 2742        | 2890        | 3011        |
| %   | 37.5        | 39.9        | 44.3        | 49.2        | 61.1        | 64.4        | 67.1        |



Table 10.6: Percentage of disclosure of guiding principles of 34 timely adopters of IR

| <b><u>Guiding Principle</u></b>        | <b>Year wise averages of 34 timely IR adopters</b> |             |             |             |             |             |             |
|--|--|-------------|-------------|-------------|-------------|-------------|-------------|
|  | <b>2010</b>  | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> |
| Strategic Focus and Future Orientation | 47.62  | 50.70       | 55.74       | 62.89       | 71.99       | 73.81       | 75.77       |
| Connectivity of Information            | 36.71  | 38.34       | 40.74       | 43.46       | 53.05       | 57.73       | 66.12       |
| Stakeholder relationships              | 30.67  | 36.13       | 44.68       | 54.48       | 72.27       | 76.47       | 78.57       |
| Materiality                            | 28.24  | 29.02       | 35.29       | 40.00       | 67.65       | 73.73       | 74.12       |
| Conciseness                            | 17.16  | 17.65       | 20.83       | 24.75       | 38.48       | 42.89       | 44.85       |
| Reliability and completeness           | 36.55  | 39.64       | 42.30       | 44.40       | 48.88       | 50.14       | 49.86       |
| Consistency and Comparability          | 61.37  | 62.16       | 64.71       | 68.82       | 73.33       | 74.12       | 75.49       |

As shown in Table 10.6 and Figure 10.5, stakeholder relationships were identified as the most reported GP among Sri Lankan publicly listed companies in 2016, with a 78.6% disclosure percentage in the year-wise analysis. No GP is found with a higher disclosure percentage. Carrying the highest disclosures in 2016, the GP3 displayed a significant move from a 30.7 % to 72.3% from 2010 to 2014 along with the IIRF adoption (Table 10.6 and Figure 10.5). The same trend was followed by GP1 and GP4, showing the improved disclosures after the adoption of IIRF. Corresponding to previous results in discrete analysis as banking and non-banking, GP7 is in its continuous improvement within a moderate level of disclosures ranging from 61.4% in 2010 to 75.5% in 2016, despite the effect of IR framework. Similarly, GP 6 also indicates a continuous growth within the lower disclosures, disregarding the incorporation of the IIRF.

Though the lowest disclosures were detected with GP5, conciseness, the percentage of disclosures presented a 55% enhancement from 24.8% in 2013 to 38.5% in 2014, and then further improved to 44.9% in 2016.

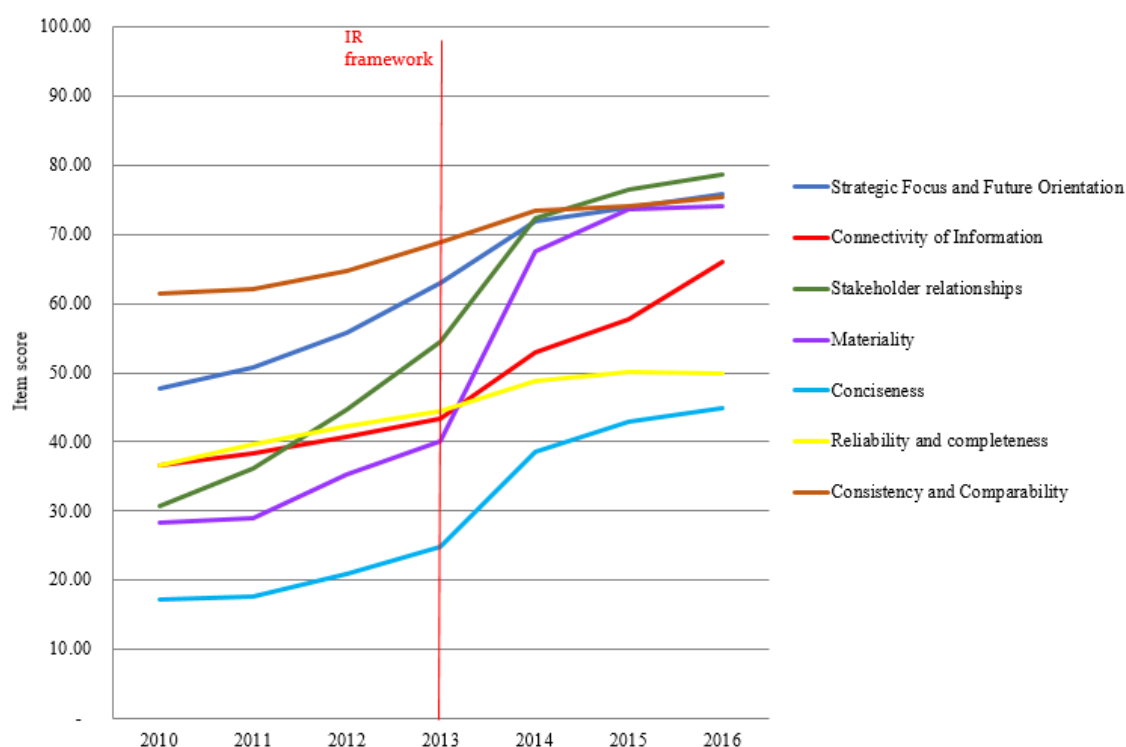


Figure 10.5: Overall disclosure of guiding principles by 34 timely adopters of IR (Source: Author)

Consistent with non-banking sector analysis, the overall disclosure of GPs shows that throughout the seven-year period Sri Lankan companies achieved the status of being highly vigilant to the disclosures relating to stakeholder relationships (GP3), then strategic focus and future orientation (GP1) and consistency and comparability (GP7), followed by materiality (GP4) (see Figure 10.5).

Table 10.7: Average frequencies for each of the guiding principle

| Principle-wise analysis of each GP         | Items per GP | Banking-GP | Non-banking GP | Total GP |
|--|--------------|------------|----------------|----------|
| GP1-Strategic Focus and Future Orientation | 7            | 64.5       | 60.7           | 62.6     |
| GP2-Connectivity of Information            | 9            | 48.1       | 47.9           | 48.0     |
| GP3-Stakeholder relationships              | 7            | 59.3       | 53.0           | 56.2     |
| GP4-Materiality                            | 5            | 52.9       | 51.3           | 52.1     |
| GP5-Conciseness                            | 4            | 34.5       | 24.5           | 29.5     |
| GP6-Reliability and completeness           | 7            | 42.5       | 46.5           | 44.5     |
| GP7-Consistency and Comparability          | 5            | 70.3       | 66.8           | 68.6     |
| Average index score                        |              | 53.2       | 50.1           | 51.7     |

Table 10.7 indicates the average frequencies of each GP derived from the item-wise analysis over the seven years. Overall analysis of the total 34 IR adopters derived similar results as in the individual analyses of 17 banking (Figure 10.2) and 17 non-banking (Figure 10.4) companies. None of the GPs achieved the status of high frequencies. Out of seven, four GPs contributed to the moderate level of responsiveness to the guiding

principles. Accordingly, GP7 (68.6%) recorded the highest scores followed by GP1 (62.6%), GP3 (56.2%), GP4 (52.1%). Subsequently, lower frequencies occurred on GP2 (48%), GP6 (44.5%) and lastly GP5 (29.5%). Hence, it also denotes a total average index score of 51.7% (moderate level) for the seven GPs over the seven years by the Sri Lankan publicly listed companies.

### 10.2.3 Graphical presentation of item-wise analysis of seven GPs

Based on the results of the previous Table 10.7, this section provides a detailed analysis of each individual item in each GP of Sri Lankan publicly listed companies. Thus, the GPs are discussed in the order of their highest to lowest disclosure percentages. The AR review examples provided in this analysis are mainly from one of the early adopters in Sri Lanka, which was also been a participant in IIRC pilot programme held in 2011 (denoted as MT1).

#### 10.2.3.1 GP 7– Consistency and comparability (68.6%)

Out of the seven, GP7 was the most responded to GP (68.6%) in terms of the level of disclosures. In previous analysis (section 10.2.1 and 10.2.2), it was also found that the trend in year-wise scores of GP7 did not show a substantial change after the incorporation of the IIRF. The information presented in an integrated report should be consistent over time and should enable comparison with other organisations (IIRC, 2013b).

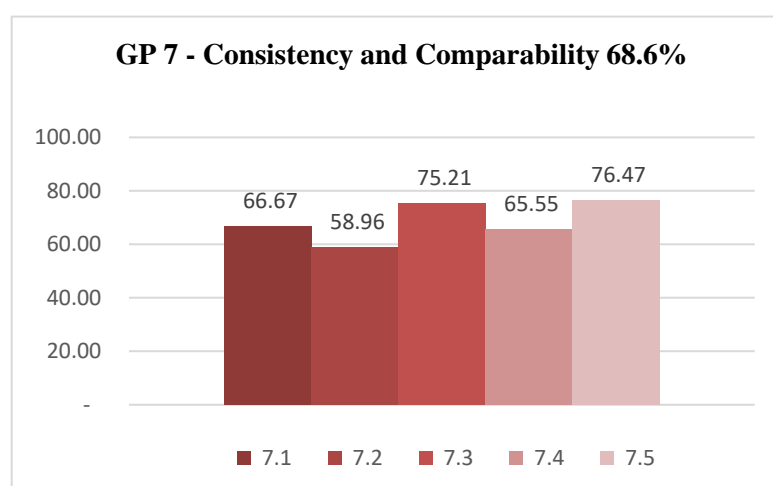


Figure 10.6: Level of disclosure of GP7 Consistency and comparability (Source: Author)

Based on the disclosure index developed for the present study (see Appendix 6G), GP7 is described by five individual index items using the IR framework. Item 7.5 scored the

highest level of attention among all, which addresses whether the companies provided a 'quick reading' summary in a relative way facilitating comparison. Majority (76.5%) of the sample companies presented dedicated separate sections of “highlights” and the “ten-year summary” which facilitates the comparability with other organisations (index item 7.5). For an example, a one- or two-page section is featured as “highlights” in the early pages of each MT1’s annual reports since 2010 (MT1 AR, 2011, p.1-3; 2016, p.7) and a section appeared as “ten-year summary” in the last few pages of their reports (MT1 AR, 2010, p.165; 2016, p.173). During the interview, CFO of MT1 voiced that:

*For an example, financial statements, for 10years, it's there. So, they [readers] can see a trend (MT1-1).*

Only two companies (HT1 and DH5) were found with no disclosures of either a section of summary or highlights in their annual reports during the period 2010 to 2012.

Similarly, quantitative indicators (index item 7.3) also appeared with a 75.2% level of disclosures. In terms of the quantitative indicators commonly used by other organisations, key indicators in summary (for example, MT 1 AR, 2010, p.165; 2014, p.167; 2016, p.173) and information on GRI content index indicators were commonly found all throughout the reporting period, whereas after the incorporation of the framework in 2014, MT1 also disclosed on capital indicators (for example, MT1 AR, 2014, p.38, 44, 48, 52, 54, 60; 2016, p.37, 41, 45, 47, 65, 72) and business segment indicators (for example, MT1 AR, 2015, p.51-56; 2016, p. 55-60).

In terms of consistency, many of the reports (66.7% ) provided evidence (to index item 7.1) that they apply significant accounting policies consistently to all periods presented in their annual reports through notes to the financial statements, Chairman/CEO’s responsibility statement and Directors’ responsibility statements across the study period. IIRC (2013b) affirmed that reporting policies should be followed consistently from one period to the next unless a change is needed to improve the quality of information reported (para 3.55, p.23). Following consistency, the sample companies also reported information in the form of ratios (index item 7.4) with a 65.6% moderate disclosure level.

Affirming the above point, the interviewee from Professional Accounting Organisation 1 (PAO1), the national accounting body in Sri Lanka highlighted the need of a consistent accounting policy as follows:

*If you [companies] change, you need to explain why, but it is debatable, every year you might change your KPIs for disclosure in various things. Say even in capital management, is it ok to be standalone like that because we are used to looking at progressive improvements. This year we use certain parameters and next year a different set, it seems to be ok as long as if you follow the framework. But is that ok? Because then you might be covering up not telling the story, so I think we recommend that you need to explain that why have you changed consistency and comparability point of view (PAO1-I-Partner).*

He shared some ideas relating to comparability also:

*We are sort of saying use commonly use KPIs across an industry...but in comparability we are saying, look, if there is any industry benchmark, use that or any regulatory things so. We are sort of trying to bring some kind of consistency (PAO1-I).*

The above two ideas were confirmed in the publication issued jointly by IRC SL and CASL in 2017.

To ensure a suitable level of comparability between organisations, IIRC (2013b) suggested addressing the questions relating to content elements, which apply to all organisations. Index item 7.2 carried 59% moderate disclosures, revealing that sample companies use benchmark data, such as industry or regional benchmarks. During the interviews, an accountant of MT1 also stated that:

*The comparability is in two ways. Whether we can compare this thing with other company or same company in past years (MT1-2).*

To address such comparability of information in their annual reports, sample companies included some other tools, such as using benchmark data, presenting information in the form of ratios and reporting quantitative indicators commonly used by other organisations (IIRC, 2013b, p.23, section 3.57), as ways of enhancing comparability.

Validating the above, Executive Officer of the MIS and Sustainability Unit of Bank3 viewed that:

*When it comes to comparability, there would be differences in one investor looking at one bank and the other bank and so on...If two banks are following one framework, sometimes it would be easier for the reader to compare and differentiate the two (B3-3).*

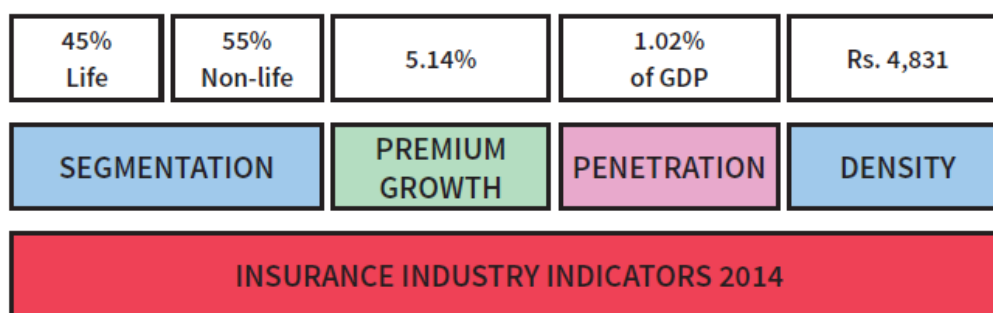
Thus, organisations should endeavour to identify common and comparable KPIs relevant to their industry to enable business analysts, stakeholders and other interested parties to assess performance of the organisations (CASL & IRC SL, 2017).

From the banking sector, the following illustrations provide examples of using industry indicators and statutory standards.

#### CAPITAL ADEQUACY AND LIQUID ASSETS RATIOS

|                                      | 2013   | 2014   | Statutory Requirement |
|--------------------------------------|--------|--------|-----------------------|
| Statutory Liquid Assets Ratio (SLAR) | 27.62% | 24.54% | 20.00%                |
| Capital Adequacy – Tier I            | 10.08% | 8.83%  | 5.00%                 |
| Capital Adequacy – Tier I & Tier II  | 14.22% | 13.62% | 10.00%                |

Figure 10.7: Illustration for statutory standards (Source: Annual report/AR Bank2, 2014, p.54)



Source: Annual Report 2014, Insurance Board of Sri Lanka

Figure 10.8: Illustration for industry indicators (Source: AR of IN3, 2015, p.70)

These illustrations show how the sample companies tended to compare themselves with other companies using the industry standards (Figure 10.7 and 10.8) and with themselves as well over different periods and with budgeted information (Figure 10.9 and 10.10).

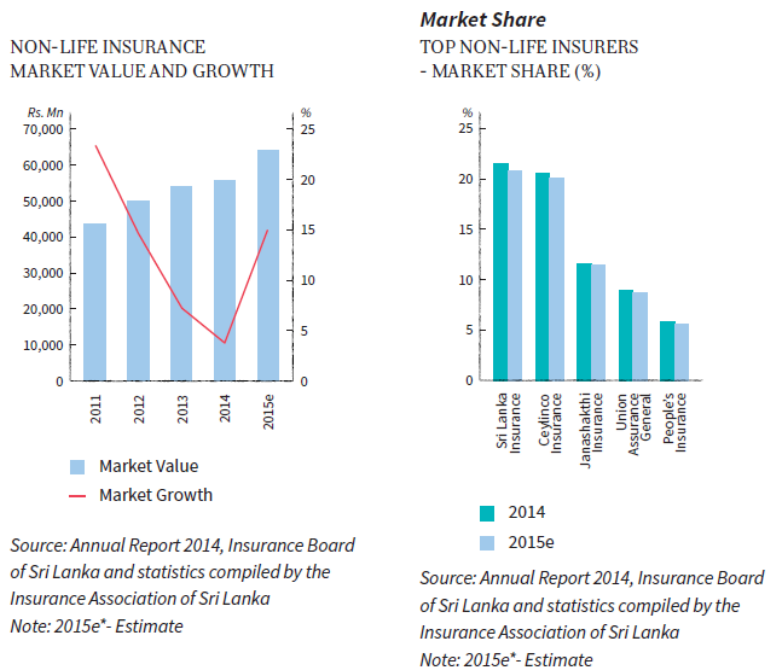


Figure 10.9: Comparisons with industry standards (Source: IN3 AR, 2015, p.71)



Figure 10.10: Comparisons with budgeted information (Source: IN3 AR, 201, p.40)

As examples for comparability from the non-banking sector, MT1 reported in detail on industry segments as benchmark data (index item 7.2) under each of their business segments from 2010 to 2016.

Interview findings derived the following supportive statements for comparability:

*For investors if they are looking for a long-term investment then it's important for them. If my company and the other competitor are having those indicators like SAP, then super, then they can compare it (MT1-2-Accountant).*

*From the decision makers point of view, you need comparability. Stakeholder point of view they need the comparability. From the company point of view also, they may need in their competitor analysis for their improvement by comparing*

*what other companies are doing and where we are. Then how can we improve our process by comparing with other competitors (ACASL2-Senior Lecturer).*

*There was no standard for annual report presentation. This IR has established the main framework for the annual report, then it has a comparability. Comparability and the readers know what are the chapters in this report and readers know what are the information presented and it established a formality (HC2-2-Senior Manager Finance).*

However, CFO of MT1 shared the following, highlighting an issue of comparability:

*Comparability may be an issue. I need to think about it...But I am on the view that when we do an integrated report, we should not think about any other company. It is not relevant. It is your strategy, what you want to achieve and deliver, to deliver what I have, what my strategies are, so I do not think you should think about others (MT1-1).*

In this sense, the consistency and comparability open up a debatable discussion as one of the challenges in IR, which is discussed in detail in Chapter 11.

#### 10.2.3.2 GP 1 - Strategic focus and future orientation (62.7%)

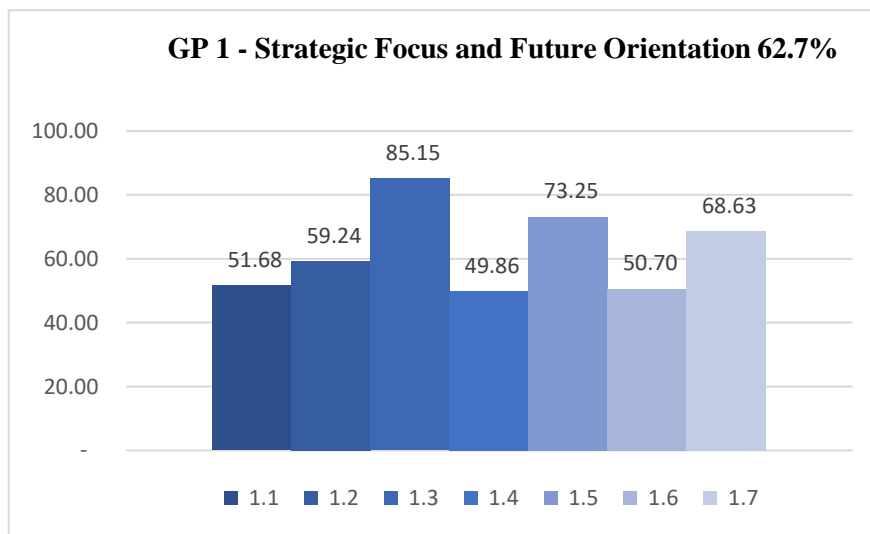


Figure 10.11: Level of disclosure of GP1- Strategic focus and future orientation (Source: Author)

According to IIRC (2013b), an integrated report should provide insight into the organisation's strategy, and how it relates to the organisation's ability to create value in the short, medium and long term and to its use of and effects on the capitals (p.16, section 3.3). This broader focus of GP1 has been analysed by seven individual disclosure items from 1.1 to 1.7 (see Appendix 6G) with a moderate disclosure level of 62.7%. This confirmed the results of Haji and Anifowose (2016b). In Wild and van Staden (2013), one of the early studies of IR disclosures, while many (76%) of the companies covered the



“strategic focus” GP, 43% achieved “future orientation” GP. They only considered five GPs and it was prior to IIRF. Ruiz-Lozano and Tirado-Valencia (2016) also confirmed the above with regard to the “strategic approach” GP.

The highest disclosure (85%) item 1.3 shows that the majority of companies placed equal prominence in their reports on the identification of significant risks flowing from market position and/or from the business model with a credible risk mitigation plan. For example, MT1 reported on management of risks by reviewing their risk management framework (see Figure 10.12), policies, risk evaluation and risk mapping (see Figure 10.13). It was evident that even from 2010, MT1 was developing a risk map which is based on the assessment of likelihood of occurrences and the potential impact of risks, in terms of the loss it would cause and the extent of the impact (MT1 ARs, 2010, p.117-120; 2014, p.96-97; 2016, p.76-77) and analysed what they had been doing to manage the risks related to capitals, value chain and risks related to impacts as well (MT1 ARs, 2014, p.98-101; 2016, p.78-80).

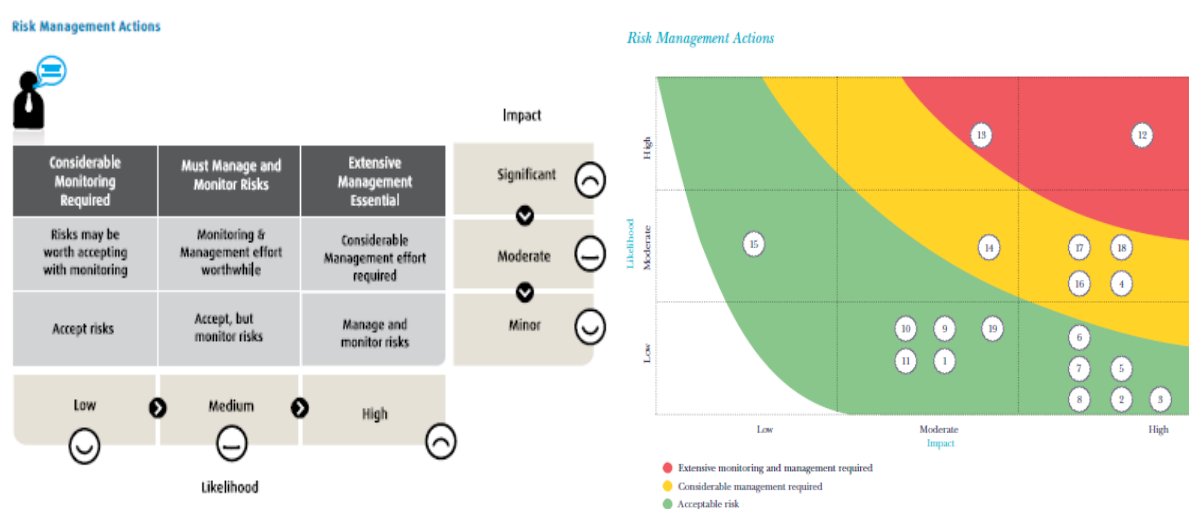


Figure 10.12: Risk management framework (Source: MT1 ARs of 2010, p.117 and 2016, p.76)

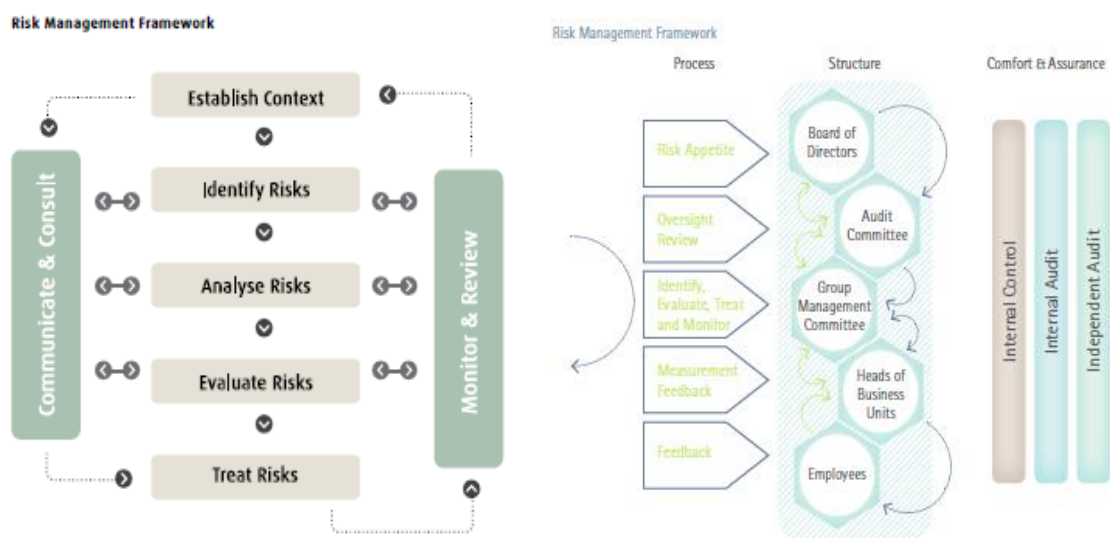


Figure 10.13: Risk mapping (Source: MT1 ARs of 2010, p.118 and 2014, p.97)

Item 1.5 (with a moderate level 73%) reports the information on the views of the board about the relationship between past and future performance, and the factors that can change that relationship, and item 1.7 reports on the information on the views of the board about how the organisation learned from past experiences in determining future strategic directions (69%). These were best emphasised by the management commentary section of each report from 2010 to 2016. In the reviewed reports of the sample, the chairman's and CEO's reviews discuss how companies strive to 'be the change' with transformative, social, economic and environmental change, how they explore business solutions, about their strategies, innovation, cost reduction, stakeholders, sustainability, new markets, new business ties, overcoming challenges, investments on their readiness for the future, outlook and way forward.

Supporting this, interviewees from a Professional Accounting Body (PAB) and an Annual Report Preparing Company (ARPC) stated that:

*I think this is a good effort and I have seen an even better effort in the CEO and Chairman's messages. Where they have brought in good content and they have summarised better, and to an extent it gives integrated thinking also (PAB2-1-Senior Specialist, Technical Policy and Engagement).*

*In the Chairman statement or something at least you are giving the broad things that you are planning to do, especially how they plan to overcome challenges in next year (ARPC2-1-CEO).*

It was also confirmed by several interviewee participants representing IR practitioners' voice:

*I think what is important is to talk about the future to give a proper picture. About the past, I think, lot of companies when they don't do well, they explain why in chairman review or something or say we have this objective and we have not achieved that. If we have not achieved, we will give the reasons why. If we have not achieved the budget usually in chairman or CEO report, we explain it. Saying we were not able to achieve the margins, these were depending on these and these were the contributing factors for not achieving the margins or something. What is relevant, we say that (MT1-1-CFO).*

*Corporate philosophy disclosing is also in Chairman's speeches (MT1-2-Accountant).*

*Our MD himself wrote a very high-level corporate plan targets he wrote in his review (IN1-1-CFO).*

*Most of the people just want to read the Chairman's report or the MD's report to see what has happened. What is this Chairman saying, how much we declaring dividend, underline the dividend, Chairman says we are giving two rupees or ten rupees or how much then he also wants to see what his vision is. The outlook of next five years what is he going to talk about. Is he going to put a factory up, is he going to sell it off, by hang on to his tone you will know (PL1-1-General Manager/GM Marketing and Corporate Affairs).*

One of the MDs (Managing Directors) uttered the same:

*I think Chairman or MD's message is very important as it concerns the stakeholders. I want to give a message about what we have done. What the company has done, what the company has achieved and give them some ideas about what conditions favourable, unfavourable and what our future direction is, what can we expect in the coming year and to give some confidence (PL1&2-1).*

Similar to items 1.5 and 1.7, which relate to the views of the board, item 1.6 with a 51% of moderate disclosure level reports on the views of the Board about how the organisation balances short-, medium- and long-term interests. For example, MT1 provided tabulated information about their sustainability performance objectives with relation to different aspects and terms, together with a level of achievement compared to previous years and with remarks (2010, p.64; 2016, p.75).

Item 1.2 with 59% denotes whether an organisation provides insight into the organisation's strategy. This also links with one of the content elements named 'strategy and resource allocation' (CE5).

Despite the increase (as Table 10.8) of the total number of companies which disclose their strategy in over the seven years from 26% in 2010 (with 9 companies) to 79% in 2016

(with 27 companies), the level of adherence to item 1.2 varies due to the various disclosure levels by different companies.

Table 10.8: Number of sample companies reporting on strategy

| Year                         | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|------------------------------|------|------|------|------|------|------|------|
| Strategy disclosed companies | 9    | 11   | 13   | 20   | 24   | 27   | 27   |
| % of 34                      | 26.5 | 32.4 | 38.2 | 58.8 | 70.6 | 79.4 | 79.4 |

For example, though no specific information was found on strategy in MT1’s disclosures relating to item 1.2, adequate information was found on “eight strategic imperatives” all throughout the reports from 2011 to 2013. One of their reports stated that:

DIMO’s strategic focus is on nourishing and nurturing its different Types of capital. This is done through innovative and responsible value creation activities that add value to the Company’s diverse forms of capital (MT1 AR, 2014, p.16).

Further, MT1 illustrated differentiation and collaboration as their two main strategies in 2015 and 2016 reports (Figure 10.14). For example, DH1 described their ‘Strategic framework’ and ‘Delivering on our strategy’ over three pages using illustrations (DH1 AR, 2016, p.60-62) (Figure 10.15).

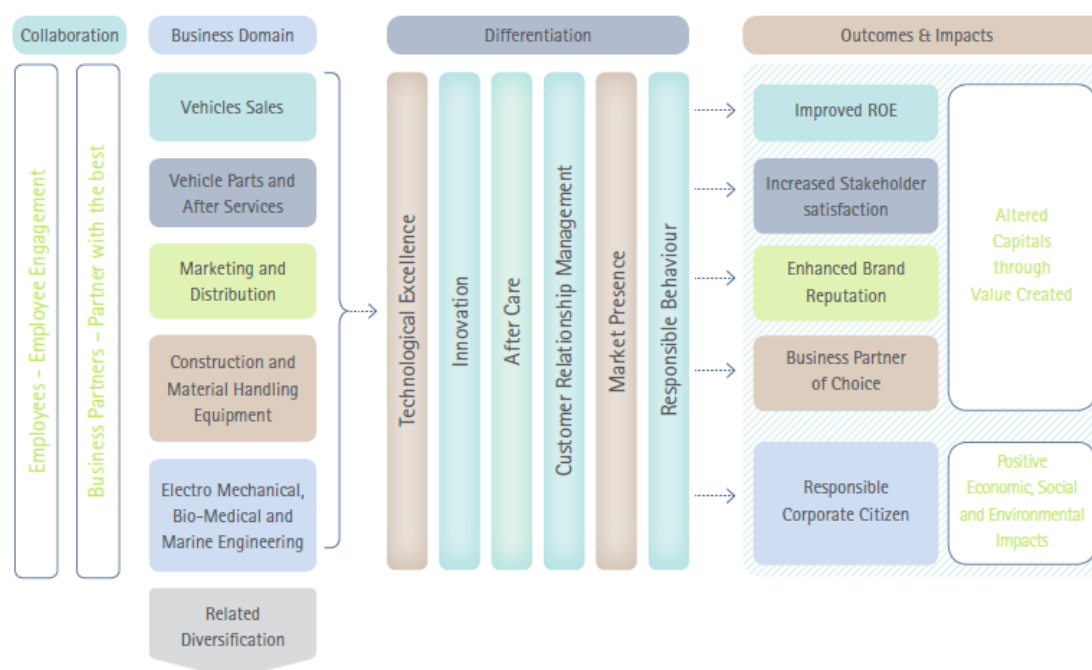


Figure 10.14: Strategy illustration (Source: MT1 2016 AR, p.30)

## Our Strategy Strategic Framework

Hayleys PLC's holistic strategy as graphically depicted below demonstrates the Group's four strategic priorities (in the center), the boundaries within which we operate (corporate governance and risk management) as well as economic and contextual trends that could potentially affect our value creation process (in the perimeter of the diagram). The key strategic priorities reflect the Group's critical, significant and high impact material aspects, the performance of which are addressed in the Value Creation Report from pages 122 to 138.



## Delivering on Our Strategy

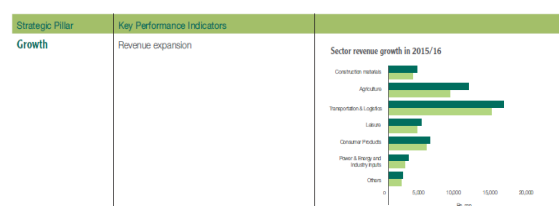


Figure 10.15: Strategy illustration (Source: DH1 2016 AR, p.60-62)

The moderate disclosure level of 52% in item 1.1 details companies' short-, medium- and long-term value propositions. Extracting from MT1's ARs, even in 2010, the economic, environmental and social sustainable value creation was reported in the "sustainability report" section (MT1 AR of 2010, pp.58-94). While the emphasis was placed on the financial value creation within the section of "management report", MT1 did report on delivering value to customers, employees, business partners, government, community and environment and deriving value back to the organisation (MT1 ARs, 2011, pp.18-77; 2012, pp.24-112). From 2014, the incorporation of IIRC (2013b) was brought in a different presentation format into MT1 annual reports compared to the reports in the previous period. Key sections were dedicated to emphasising the key IR concepts in each of the annual reports. For example, a section dedicated to "value creation report" offered a detailed analysis of how MT1 used their capitals and value creation activities to create lasting value for all stakeholders (MT1 AR 2014, p.38-77). In 2015 AR, MT1 presented its value creation model, value creation process through its capitals and value creation activities and impacts in the sections called "a magnetic idea" and "an engaging discussion" (MT1 2015 AR, p.24-70) and similar was provided in the 2016 report under the sections "a clear-cut delivery" and "a visible operation" (MT1 AR 2016, p.28-75).

Reporting on the 'opportunities of the company' was the least focused on (with 50%) disclosure item (1.4) by the sample companies. Many of the companies were found with no specific information on opportunities, causing more '0' or '1' scores and resulting in a lower disclosure level.

MT1 did not report on opportunity during the seven years. When asked for any reasons for non-disclosure of 'opportunities of the company', the CFO of MT1 voiced that:

*There are reasons sometimes. Because we don't want to divulge the opportunities to other competitors. I agree that there is not much reported in opportunities. That*

*will really say something about the future of your potentials. So sometimes we discuss about future plans to an extent that you cannot gain out of it. So, you have to look at the commercial reality also (MT1-1).*

In contrast, some other companies reported on opportunity along with challenges and risks and in SWOT analysis. For example, PL1 reported on opportunity from 2012 (p.54-56) to 2016 (Figure 10.16). In 2016, they reported on opportunities in ‘the overall business SWOT’ (p.42) and opportunities relating to each capital (p.70, 81, 108, 120, 127, 131).

Sustainability Report Contd..

## BUSINESS REVIEW

Key Challenges, Opportunities and Risks

| Triple Bottom Line | Challenges   | Opportunities  | Risks   |
|--------------------|--|--|---|
|                    | <ul style="list-style-type: none"> <li>Recession and conflicts in tea consuming countries reducing the demand for high priced Ceylon quality teas.</li> <li>Increasing global supply of tea and</li> </ul> | <ul style="list-style-type: none"> <li>Diversification in to other crops and new business ventures.</li> <li>Leveraging Company's brand</li> </ul> | <ul style="list-style-type: none"> <li>Cost/ Inflationary pressures may adversely affect implementation of sustainable development</li> </ul> |

G4-2

| Overall Business SWOT   |   |   |   |
|---|---|---|---|
| Strengths   | Weaknesses  | Opportunities   | Threats   |
| <ul style="list-style-type: none"> <li>Strength of the brand for quality teas</li> <li>Good governance &amp; risk management practices</li> <li>Hands-on operational management practices</li> <li>Financial discipline</li> <li>Sustainable agriculture</li> </ul> | <ul style="list-style-type: none"> <li>Ageing tea fields affecting crop production &amp; productivity</li> <li>Low labour productivity</li> <li>Long gestation periods for returns</li> <li>Wage component accounting for a sizeable</li> </ul> | <ul style="list-style-type: none"> <li>Diversification into other crop and new business ventures</li> <li>Higher global demand and prices for green, ethical and food safety management certified quality teas</li> </ul> | <ul style="list-style-type: none"> <li>Global economic and geo political uncertainties in key export markets</li> <li>Domestic macroeconomic uncertainties and policy changes impacting industry and business growth</li> </ul> |

Figure 10.16: Disclosures on opportunity (Sources: PL1 ARs of 2012, p.54 and 2016, p.42)

### 10.2.3.3 GP 3 - Stakeholder relationships (56.2%)

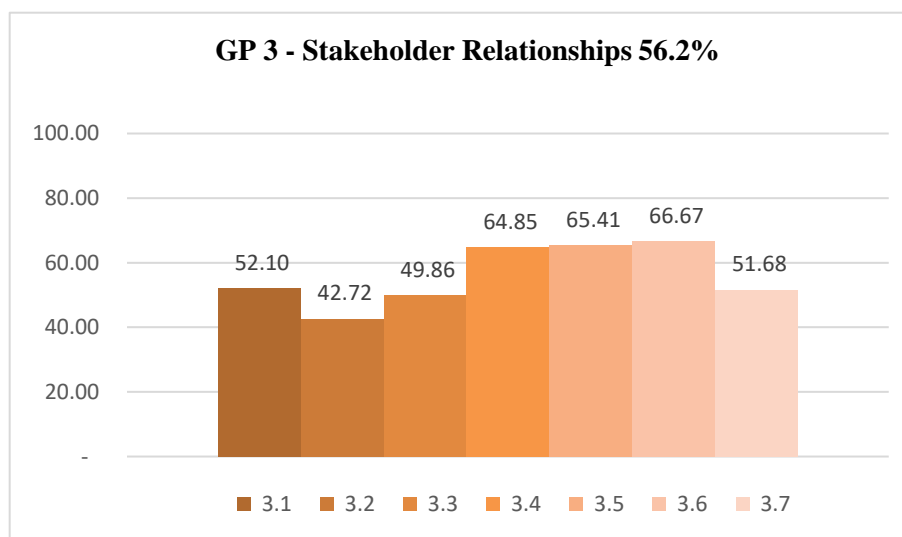


Figure 10.17: Level of disclosure of GP3- Stakeholder relationships (Source: Author)

According to the IR framework, an integrated report should provide insight into the nature and quality of the organisation’s relationships with its key stakeholders, including how

and to what extent the organisation understands, takes into account and responds to their legitimate needs and interests (IIRC, 2013b, p.17, section 3.10), as integrated reporting highlights the importance of continued positive relations with the organisation's stakeholders given that value is not created by or within an organisation alone, but through relationships with others (IIRC, 2013b, p.17, section 3.11). In the present study, the stakeholder relationships were explained in seven individual index items (from 3.1 to 3.7) with an overall adherence level of 56.2%. Lower frequencies were found in the GP relating to "commitment to stakeholders" in Ruiz-Lozano and Tirado-Valencia (2016). However, in Wild and van Staden (2013), an early study of GPs, only one-third of the sample companies achieved the "responsiveness to stakeholder inclusiveness principle". In contrast to the above and present findings, the "stakeholder relationships" category is ranked highest in Haji and Anifowose (2016b).

The highly reported item here is 3.6 (a moderate level of 66.7% in Figure 10.17) which addresses the stewardship responsibility of companies. This item also has a link with the CE2 'governance' being the most reported CE. The reason for the high disclosure of 3.6 could be due to the high disclosures relating to CE1.

MT1 asserts on stewardship responsibility to be:

The stewardship role played by the Directors demands that they act responsibly towards stakeholders so that DIMO becomes a responsible corporate citizen. The stakeholder engagement process identifies material stakeholder issues that must be addressed in our journey towards being a better corporate citizen (MT1 AR 2017, p.34).

Throughout their seven-year reporting period, MT1 used the term "enterprise governance" instead of "corporate governance". During the interviews, the reason for such explanation was explained as follows:

*Corporate governance arises because Board has a stewardship role arising from all these stakeholders. In stewardship, the Board is the trustee of so many people. That is the stewardship responsibility. How does the Board execute it? It is through the corporate governance. That is the instrument or the path that the Board takes. Because everyone expects the Board to act fairly, ethically, responsibly, even complying legally and all these stakeholders expect the Board to do it. So, governance is a tool to do it... When you talk of CG, the connotation that come is the conformance. But we feel entrepreneurship and performance and, performance and conformance. So, we have brought in entrepreneurship also into our governance report. So, entrepreneurship we feel is part of governance. Otherwise without entrepreneurship we don't want a Board who are not good entrepreneurs. Because it is not only to comply. Board has to make money also.*

*So that is why we rarely use the word corporate governance. We use the word enterprise governance (Interviewee MT1-1-CFO).*

The IR framework propounds that accountability is closely associated with the concept of stewardship and the responsibility of an organisation to care for, or use responsibly, the capitals that its activities and outputs affect (IIRC, 2013b, p.18, section 3.15). According to the IR framework, a stewardship responsibility is imposed on the entity via legal responsibilities when the capitals are owned by the entity and stewardship responsibilities may be imposed by law or regulation when the capitals are owned by others or not owned at all. When there is no legal stewardship responsibility, the entity may have an ethical responsibility to accept, or choose to accept and be guided in doing so by stakeholder expectations (IIRC, 2013b, p.18, section 3.15-3.16).

Thus, in a similar line, the last disclosure item 3.7 also relates to item 3.6 and bears a moderate level of compliance of 51.7% (Figure 10.17). Having identified the importance of disclosing information on the stewardship responsibility and the ethical responsibility towards the capital ownership, CFO of MT1 confirmed that:

*Why there should be any ethical responsibility? Because it is demanded by someone. Who demand such? Stakeholders. Stakeholders are the key providers of critical capitals. So, everything arises from that stewardship roles. If you talk about how the directors discharge the ethical responsibility, it should be in the governance report (MT1-1).*

Hence, this lower disclosure of ethical responsibility in governance is identified as one of the challenges and it is discussed in Chapter 11.

Item 3.5 (reports on engagement with stakeholders and defines the communication channels with stakeholders) and 3.4 (reports on how key stakeholders' legitimate needs and interests are understood and responded, i.e. stakeholder responsiveness) are shown to have a similar percentage of 65%.

Engaging with the stakeholder community is a vital step in progress towards building a sustainable and responsible business. The AR review evidenced that MT1's stakeholder engagement process is key to many facets of their business, for example:

*At DIMO, engagement with stakeholders is intrinsic to the way we use our capitals to build value. Feedback from stakeholders helps to develop strategies that generate sustainable value. Their expectations and needs, which emerge from the engagement process, help us refine our products and services to ensure that we deliver sustainable value (MT1 AR 2016, p.31).*



Notwithstanding the above, findings revealed that including MT1, many companies reported on a substantial stakeholder engagement process after the incorporation of the IR framework. CFO of MT1 as a panel session participant shared the reasons for such maturity of reporting on stakeholder engagement as follows:

*I think it's because from sustainability reporting (SR) we moved to IR and one of the key elements of SR is stakeholder engagement. So organisations are quite mature in that. When you are looking at integrated report, anything that you report in the integrated report has to be connected to the value creation, I think what is happening now is, organisations are now trying to connect why the stakeholder is important for an organisation. Because IR is essentially speaks of creating value for the organisation and also for the stakeholders (Panel session of IR workshop, participant MT1-1).*

Organisations engage stakeholders on a periodic basis with a view to identifying stakeholder expectations. For example, MT1 provided tables containing the frequency at which such engagement took place and the methods of engagement which varied from surveys to independent one-to-one interviews (AR 2014, p.35; 2015, p.28; 2016, p.32).

The disclosures related to item 3.1, which addresses companies' rationale or method of identifying these stakeholders, is recorded at 52.1% moderate disclosures.

However, throughout the reporting period of the past seven years, MT1 extensively disclosed on the rationale or the method of identifying their stakeholders using figures, diagrams and narrative explanations (2012, p.12; 2013, p.08; 2014, p.34; 2015, p.27). Their stakeholders were identified by the Sustainability Committee following a comprehensive analysis of data independently obtained from various stakeholder groups and that stakeholder identification process was revisited every five years, to determine whether any new stakeholders should be included (MT1 AR 2016, p.31).

### Stakeholder identification mechanism for engagement

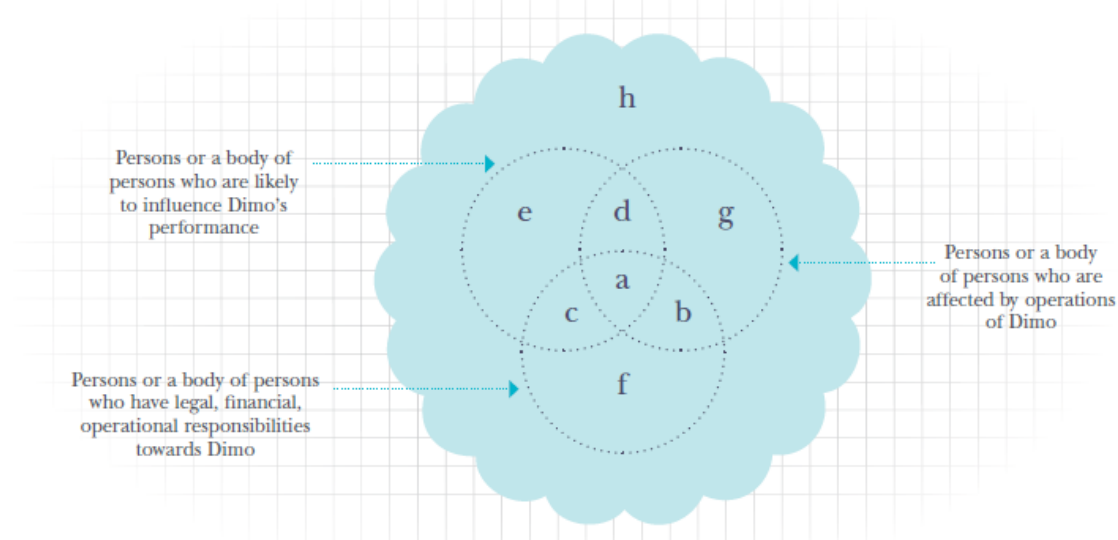


Figure 10.18: Stakeholder identification process (Source: MT1 AR 2014, p.34)

Those identified stakeholders are categorised into three groups based on their ability to impact MT1's value creation or to be affected by MT1's value creation (Figure 10.18). The three non-mutually exclusive stakeholder groups are stakeholders who have legal, financial or operational responsibilities towards MT1, stakeholders who are likely to influence MT1's performance and stakeholders who are affected by MT1's operations. The three sets of stakeholders are then analysed against each group using three criteria: the most important for engagement, the next most important for engagement and not considered for periodic engagement (2016, p.31). This affirms section 3.11 of the IR framework, which states that "it does not mean that an integrated report should attempt to satisfy the information needs of all stakeholders" (IIRC, 2013b, p.17).

With relation to the information on critical stakeholder dependencies/material matters and the steps taken to mitigate such matters, item 3.3 scored 49.8% disclosures. Extracting from AR reviews, it was found that companies which reported such used tables and graphs to illustrate the prioritisation the stakeholder issues. For example, MT1 reported on the section "feedback analysis" which contained "stakeholder issue prioritisation matrix" and a table to illustrate "material stakeholder issues and their status" from 2014 onwards. In the stakeholder issues prioritisation matrix, expectations and issues identified during the stakeholder engagement were rated, assigned and prioritised to identify those most material to their stakeholders, by assessing the likely level of stakeholder priority for their

decision-making against the likelihood of the current or potential impact on the entity (2016, p.33). In this view, the comprehensive stakeholder relationship disclosures along with the ongoing communication with such stakeholders occurs regularly as an ordinary course of conducting business (IIRC, 2013b, p.18, section 3.13). Moreover, disclosing information regarding the quality of the organisation's relationships with key stakeholders and also the entity's responsiveness to their legitimate needs, interests and material issues would enhance the entity's transparency and accountability as a responsible corporate citizen. The IR framework also claimed that an integrated report enhances transparency and accountability, which are essential in building trust and resilience, by disclosing how key stakeholders' legitimate needs and interests are understood, taken into account and responded to through decisions, actions and performance, as well as ongoing communication (IIRC, 2013b, p.18, section 3.14).

Confirming to the three levels of stakeholder involvement – mapping, management, engagement – claimed in stakeholder engagement literature (Gianfelici et al., 2018; Mitchell et al., 1997; Waddock, 2002), MT1's stakeholder engagement process involved three important steps: stakeholder identification (item 3.1), stakeholder engagement (item 3.2 and 3.5) and feedback analysis (item 3.3 and 3.4).

The least recorded item (with 42.7% low disclosures) in GP3 is 3.2 which addresses how stakeholder insights are used to develop strategy and evaluate strategies. Consequently, many of the sample companies were not been able to report on how stakeholder insights were used to develop strategy and evaluate strategies.

When asked for the reasons for non-disclosures relating to item 3.2, participants shared the following:

*We have done it, but we not reported. Actually, it was practicing, but there is a gap in what we are practicing and what we write in the report (CN1-1- GM Commercial).*

*Some of them are very well documented and some are not (B3-1-CFO).*

*Engagement process is there. But reporting is not done. It does not mean that we have stop engaging. That is a theoretical thing. My view is when it comes to annual reporting, we should not go into this and that matrix, because, at the end of the day who can understand this jargon. We should communicate the things in a simple way. Stakeholder feedback for strategy implementation is an internal thing. Rating our stakeholders is an internal thing (B1-1-CFO).*

*We don't do stakeholder engagement for the purpose of reporting. We don't. For marketing purpose or research purposes we do, but not for reporting. We do customer survey for product development. That stakeholder feedback is for business purposes and not for reporting (IN1-4-Accountant).*

Stakeholders can influence the outcomes of the organisation's business strategies in a positive and negative manner (IRC SL & CASL, 2017). Evidence of stakeholder consultation on formulating strategies was not found in Stent and Dowler's (2015) CE analysis as well.

However, throughout this GP3 of stakeholder relationships, companies are expected to place great emphasis on achieving high levels of stakeholder inclusivity, believing that the pulse of their stakeholder is a vital requirement in carrying their businesses forward. In accordance with the AA1000 Stakeholder Engagement Standard 2011, for stakeholder engagement to be successful, an understanding of the purpose, scope and the relevant stakeholder that is engaged is required (IRC SL & CASL, 2017).

#### 10.2.3.4 GP 4 - Materiality (49.7%)

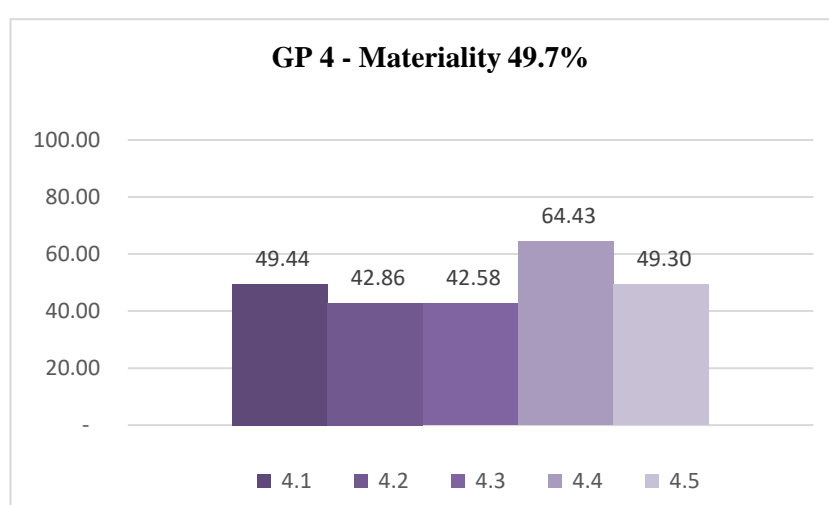


Figure 10.19: Level of disclosure of GP4 – Materiality (Source: Author)

For the purpose of IR, a matter is material if it is of such relevance and importance that it could substantively influence the assessments of providers of financial capital with regard to the organisation's ability to create value over the short, medium and long term (IRC SL & CASL, 2017).

As in the IR framework, an integrated report should disclose information about matters that substantively affect the organisation's ability to create value over the short, medium

and long term and is determined by considering their effect on the organisation's strategy, governance, performance and prospects (IIRC, 2013b, p.18, section 3.17 & 3.21). The overall level of response for GP4 by the sample companies is 49.7% and it is explained through five individual disclosure items (4.1 to 4.5).

Item 4.4, which reports information on the reporting boundary, is disclosed at a moderate 64.4% level. Despite item 4.4, all other disclosure items are reported with low levels of response (less than 50%).

As addressed by the individual index item 4.4 (64.4%) and 4.5 (49.3%) and as in IIRC (2013b), the key to the material determination process is the concept of the reporting boundary, which has two aspects; the financial reporting entity and the stakeholders beyond the financial reporting entity that have a significant effect on the ability of the financial reporting entity to create value (IIRC, 2013b, p.19, section 3.30-3.35). The first aspect of determining the reporting boundary is item 4.4 with 64.4%; as an example, MT1 identified its financial reporting entity by disclosing information that covers the activities of MT1 and its subsidiaries, collectively referred to as MT1 Group ( or as "MT1") spanning during their reporting period, which is a 12-month period ending 31<sup>st</sup> March each year. A dedicated separate section named "report boundaries" and a one page of reference of the "group structure" were presented in each of the annual reports of MT1, providing information about their financial reporting entity. In the reporting boundary section of each report, MT1 summarised the key changes to the group structure which led changes in reporting scope and/or boundaries compared to the previous year and also cross-referred (with page numbers) to the consolidated financial statement of MT1 as well as to the section which identified the activities of MT1. Independent auditor's report also assured that they had audited the consolidated financial statements of "MT1" evidencing that MT1 provided information about their reporting boundary.

With relation to the second aspect of determining the reporting boundary (item 4.5 with 49.3%), information appeared on the risks, opportunities and outcomes attributable to or associated with entities (subsidiaries, joint ventures, investments) and also stakeholders (employees, customers, suppliers, business partners, communities, others) beyond the financial reporting entity that had a significant effect on the ability of the financial reporting entity to create value IIRC, 2013b (p.20, section 3.34). In the reports reviewed since 2010, there is a discernible shift in the way of reporting the narratives provided by

MT1, after the adoption of the IR framework in their reporting practices in 2014, especially with relation to this second aspect of reporting boundary for the annual report. For an example, the sections “value creation report”/“value creation model” and “strategy” which offer detailed analysis of how MT1 uses their capitals to create lasting value for all their stakeholders, how their value creation model drives their strategy and how MT1’s strategy has resulted in important outcomes achieved through their model of value creation, the section of “capitals report” which analysed each of MT1’s capitals that provide input to their value creation model, the “business report”/“management of value chain” section which evaluates and provides performances of diverse business segments, the section of “impact management report”/“management of impacts” which describes the economic, social and environmental impacts of their value creation activities and the section of “risk management”/“management of risk” would provide detailed, extensive and timely information relating to the risks, opportunities and outcomes associated with stakeholders beyond the financial reporting entity of MT1.

Further, Figures 10.20 and 10.21 provide examples for two companies from the banking sector and diversified holdings sector subsidiaries’ performance.

## PERFORMANCE OF SUBSIDIARIES - SIYAPATHA FINANCE

As passive market sentiments, economic uncertainty and rising interest rates brought with them a number of challenges for all in Sri Lanka's NBFi sector, the key worry for Siyapatha Finance PLC was the higher cost of funds, mainly due to upward revision in AWPLR. The company, which relies on Bank Borrowings as the main source of funds, had to contend with a higher cost of funds, which drove up interest expenses by 96.5% compared to the previous year.

Meanwhile, the Loan-to-value ratio, the duty hike and the free float of the exchange rate, which came into effect in the latter part of 2015, together with the new changes to the vehicle import duty structure introduced in May 2016, all had a bearing on the company's leasing portfolio. With a significant portion of the company's business coming from leasing, interest income registered a growth of 43.8% compared to the previous year. However, the increase in the cost of funds due to the upward revision in AWPLR, led to a sizable erosion of the net interest margins for the year.

Efforts to relieve the stress on the bottom line were thus focused mainly on minimizing the funding mismatch, prompting the launch of a rated unsecured senior redeemable debenture in September 2016. With 3 and 5 year tenures, the Debenture was

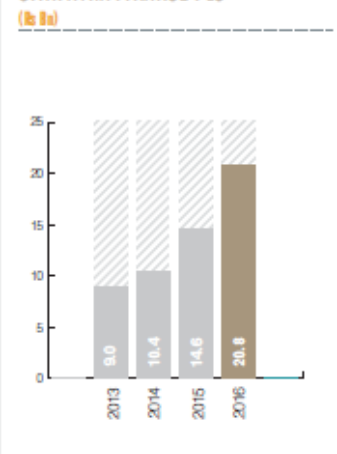
initially aimed at raising only Rs 2 Bn, but was subsequently increased to Rs 2.5 Bn owing to the level of oversubscription.

Meanwhile, steps taken to broad base the lending model and reduce the dependence on leasing saw a number of new loan products being introduced targeting SMEs, including Personal Loans and Business Loans. Among the key developments in this regard was the "Gold Dream" product, which unlike the traditional pawning concept, allows the customer to obtain a direct loan to purchase gold items.

In tandem with these changes; the company also made steady progress in its branch expansion strategy, opening 4 new branches in Gampaha, Trincomalee, Kalutara and Wellawatte bringing the total branch footprint to 24 as at 31st December 2016. Further, the company procured a property in Colombo 8, the proposed site for the corporate office, due to be completed by 2018.

With the widening business focus and expanding network, the main operational thrust was to improve efficiency and reduce costs. Steps taken in this regard saw the establishment of a centralized Credit Administration function to improve overall efficiency and reinforce document security. Further,

### TOTAL ASSETS - SIYAPATHA FINANCE PLC



the automation of key operational procedures, including the loan process and the lease application procedure aims to minimize waste and reduce duplication of resources, while outsourcing of the recovery function is expected to deliver considerable cost savings and improve efficiency in the longer term.

### PERFORMANCE - SIYAPATHA FINANCE

|                        | 2016 (Rs Mn)         | 2015 (Rs Mn)         | Variance (%) |
|------------------------|----------------------|----------------------|--------------|
| Total Operating Income | 1,531.0              | 1,381.5              | 10.8%        |
| Profit Before Tax      | 643.7                | 652.5                | -1.3%        |
| Profit After Tax       | 327.3                | 384.5                | -14.9%       |
| Asset Base             | 20,790.7             | 14,639.3             | 42.0%        |
| NPL Ratio              | 2.7% (Industry 5.7%) | 1.3% (Industry 6.4%) |              |

Figure 10.20: Information for subsidiary information (Source: B2 AR, 2016, p.118)

## HEALTHGUARD

Healthguard (HGL) is the sector's retailing arm and is a fully owned subsidiary of Sunshine Healthcare. It has established new benchmarks in Healthcare retailing since 2003. This modern brand of pharmacy has extended Healthcare retailing to offer solutions for Beauty, Wellness and Pharma. The 24 outlets, located across the Colombo district, offer a range of reputed and trusted brands to Live, Look and Feel better, and the Company is rapidly expanding its presence.

### Performance Highlights 2015/16

- Healthguard achieved its best-ever performance to date with Revenue growing by 25.6% over the previous year.
- Profit After Tax following investments of over 50% of PAT into rapid expansion of our presence stood at Rs. 9.6 million.
- Opened 4 new fully fledged outlets and refurbished two during the year.
- Partnered with a Supermarket chain to open 4 express outlets during the year, bringing the total number of outlets to 24.
- The basket value per customer, as well as customer count at outlets, saw impressive growth.
- It is significant that on a backdrop of a Compound Annual Growth Rate of 14% by the market for personal and beauty products, Healthguard's beauty range grew by 50%.



### Strategies

- Gain market share.
- Consistent offering of new products to engage customers.
- Achieve cross functional business excellence.
- Leverage technology to improve customer engagement
- Establish an online presence.
- Enhance service offering through continuous training.

### Challenges

- Consumer spending is likely to decline due to the impact of Rupee depreciation on purchasing power.
- Low market growth due to escalating costs of Healthcare.
- Brand loyalty building index in pharmaceuticals tends to be low.
- Developing the talent pipeline and lack of skilled and qualified individuals.
- Finding the right fit in talent as a key determinant of the success of an outlet being the attitude and competencies of its employees.

### Objectives/Plans 2016/17

- Communication campaign to enhance brand equity and consumer loyalty.
- Continue expansion plans of opening new outlets in 2016/17.
- Continue to improve operational efficiency.
- Consistently improve customer engagement and service across the stores.
- Expand our digital presence.
- Improve employee competencies and skills.
- Further expand Wellness and Beauty segments.

### Strengths

- Healthguard enhanced equity and credibility.
- Fully regulatory and legally compliant.
- Expansion to new outlets.
- Employee technical knowledge and skills
- An integrated IT system.
- Outlet ambience and format.
- Product range and assortment.

### Opportunities

- Service building
- Online opportunities.
- Regulation of industries will enhance safety, transparency and create a more level playing field.
- Beauty retailer space is limited.
- Rising demand for Women's lifestyle products.
- Savvy consumers increasingly seek more product info from line staff which provides an opportunity for establishing relationships and cross selling.

Figure 10.21: Information for subsidiary information (Source: DH3 AR, 2016, p.43-44)



The rationale and the process adopted by the companies in determining materiality is explained through item 4.1 with a lower adherence level of 49.4%. For example, all reviewed reports of MT1 made early and prominent reference to its materiality determination process in which material matters were identified through MT1's stakeholder engagement process. Materiality determination process includes identification of relevant matters, evaluating importance, prioritising importance matters and determining information to disclose (IIRC, 2013b). MT1 described the rationale adopted in determining materiality in detail all throughout the years. In MT1's materiality determination process, the effectiveness of both positive and negative stakeholder concerns/responses as well as both internal and external judgment from different stakeholder perspectives are closely monitored by the Sustainability committee with respect to internal sustainability performance objectives, to ensure that MT1 addressed them adequately, up-to-date and on a timely basis (2014, p.37; 2018, p.37). IIRC (2013b) proclaimed that the materiality determination process applies to both positive and negative matters, including risks and opportunities and favourable and unfavourable performance or prospects (p.18, section 3.19).

Item 4.3 of GP4 reports on the magnitude of a matter's effect and prioritisation of matters with a lower response level of 42.6%. AR reviews of sample companies revealed that materiality matrix is identified with reference to the item 3.3 (as explained in previous GP3), disclosing the identification of matters, magnitude of a matter's effect (the likelihood of occurrences) and prioritisation of matters (Figures 10.22 and 10.23). However, two participants from MT1 voiced a different perception, stating that these are two different aspects of materiality:

*Materiality should be the starting point of IR. Materiality of the capitals. We tried to do it. We will include it next year. That is why we have also used the term material dependencies to recognise our capitals. That is for us how material the person is. So that stakeholder is that much material to our organisation. We consult stakeholders for the issues... Material issues of stakeholders is when you do report on the problems they have, issues that they have. The real or the other materiality test is, it is coming through stakeholders, because they are the providers of capitals. For the company, in my view it is slightly different. What is material to stakeholders and what is material to the company are different. We know what is important for us. It's business. It's part of integrated thinking. Integrated thinking should decide what is important for us. But this is how we have done it and that is why we reported on it. And this is also a one area that we have to improve our report. Maybe we have to figure out a way of bringing both together (MT1-1-CFO).*

*We identify what they [stakeholders] want and we identify their material issues and we'll put on them to satisfy their information. But that doesn't necessarily mean that is what is important for company's for value creation. Because senior management, they are the people who decide what is important for us to get this value. Then management*

*and also the risk management combined together only we can decide what is to be reported in the integrated report. Because it's more focused towards the company's objectives rather than what is stakeholders are expecting sometimes (MT1-3-Accountant).*

IIRC (2013b) asserted that not all relevant matters will be considered material, and to be included in an integrated report, a matter needs to be sufficiently important in terms of its potential effect on value creation, thus being certain about the magnitude of the matter's effect, or if it is uncertain whether the matter will occur, the likelihood of occurrence needs to be considered. In the 'Background paper for materiality', it is stated that the magnitude of the effect on the organisation's ability to create value is determined by assessing the magnitude of the matter's effect on the organisation's strategy, BM and different forms of capital in the short, medium and long term (IIRC, 2013d). For example, through the materiality prioritisation matrix, MT1 identifies the issues indicated in the area of high significance and impact on both the stakeholders and the entity and, thus, all indicators are fully discussed in the annual report and/or on the corporate website. Issues indicated in the area of a relatively moderate impact on MT1's business were reported fully or partially in the annual report and/or in the corporate website, whereas issues found in the area of a minor impact may only have been reported on the corporate website (2016, p.33).

## Corporate Accountability

### Materiality Assessment

G4-19,20,21



| No              | Aspect                      | Boundary                 | Material Level within the Organization | Material Level outside the Organization |
|-----------------|-----------------------------|--------------------------|--|---|
| <b>Economic</b> |                             |                          |  |   |
| 1               | ● Economic Performance      | Sampath Bank             | High                                   | High                                    |
| 2               | ● Market Presence           | Sampath Bank             | High                                   | High                                    |
| 3               | ● Indirect Economic Impacts | Sampath Bank / Community | High                                   | High                                    |

Figure 10.22: Materiality Assessment (Source: AR of B2, 2015, p.60)

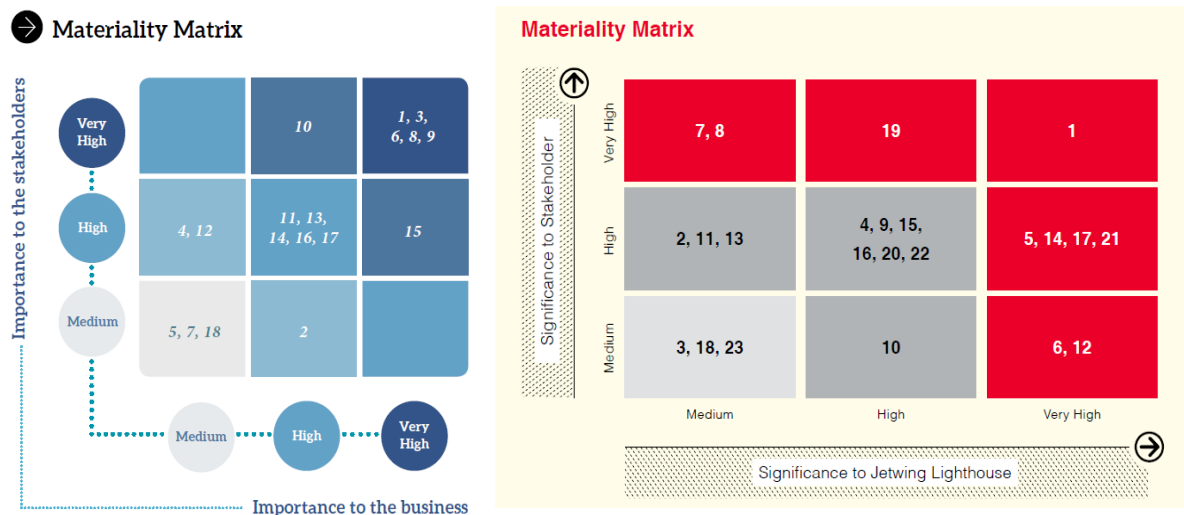


Figure 10.23: Materiality Assessment (Sources: TLC1 AR, 2016, p.60; HT1 AR, 2015, p.36)

Item 4.2 (reports on whether the company provides judgment from different perspectives, both from internal and external stakeholder engagement in determining materiality) achieved a low disclosure level of 42.9%. Section 3.20 in the IIRC (2013b) stated that the materiality determination process is integrated into the organisation’s management processes and includes regular engagement with providers of financial capital and others to ensure the integrated report meets its primary purpose (p.18). However, a somewhat different picture of this statement was apparently presented in the annual reports produced by MT1 over the period examined. Instead of including the regular engagement with “providers of financial capital” and “others” in their materiality determination process, MT1 acknowledged and gave prominence to the impact and the regular engagement they had with “stakeholders” largely through the seven-year period reviewed in this study. The following extraction from MT1’s 2010 annual report gives a better understanding about how MT1 has been identifying the material issues which are not merely concerned with the economic well-being of the “shareholders”, or as in the IIRC (2013b), “providers of capital”, but also on other stakeholder groups as well;

Traditionally, organisations have been paying more emphasis to the impact on the economic well-being of the shareholder viz., profitability and have attached relatively less importance to economic impacts on other stakeholder groups...However, we must note that the remaining two parameters of Sustainability-Environmental and Social - are becoming increasingly important and this rapid change in thinking is compelling organisations to give sustainability its due place...From a business point of view too, customers are expecting business entities to give due importance to a sustainability framework encompassing all parameters in addition to the economic impact on the shareholder (MT1 AR 2010, p. 60).

Therefore, in the materiality determination process of MT1, they do engage and prioritize the material issues relating to their shareholders, as the providers of financial capital which form the monetised capital of MT1 and owners of the company, customers, as their principle source of sustenance and part of their relationship capital, business partners and suppliers, who are considered as a critical component of the value chain and part of their relationship capital, employees, as the key resource for competitive advantage and sustainable growth of MT1 and society, which includes the local immediate communities, stakeholders in sustainable development, regulatory and government agencies (AR of MT1 2014, p.35).

The following interview quotes also confirm the importance of obtaining stakeholder insights in determining the materiality aspects of companies:

*As a responsible company it's really important to identify what is really material to stakeholders and address if we are in case acting against their materiality. It's really important and also to support their material interest. Those are the two scenarios where I think identifying stakeholder materiality is important (MT1-2-Accountant).*

*They [stakeholders] are part of our business, they are part of our capitals also, therefore we have to identify their issues, otherwise we can't achieve our ultimate objectives, business strategies, because they are part of our business model (MT1-3-Accountant).*

*We want our stakeholders to know that they are dealing with a very professionally managed company. So with that in mind, we do our performance notes and strategies, strategy reviews, and so on and so forth in the annual report (TLC1-1-CFO).*

*They [companies] have to do a proper stakeholder assessment and you have to do a materiality assessment based on the stakeholder thoughts and find out what the stakeholders want to know about your company and then based on that write the information. But it doesn't happen properly in most of the cases (AUI-1- Manager-Transaction Advisory Services of Audit Firm 1).*

#### 10.2.3.5 GP 2 - Connectivity of information (48%)

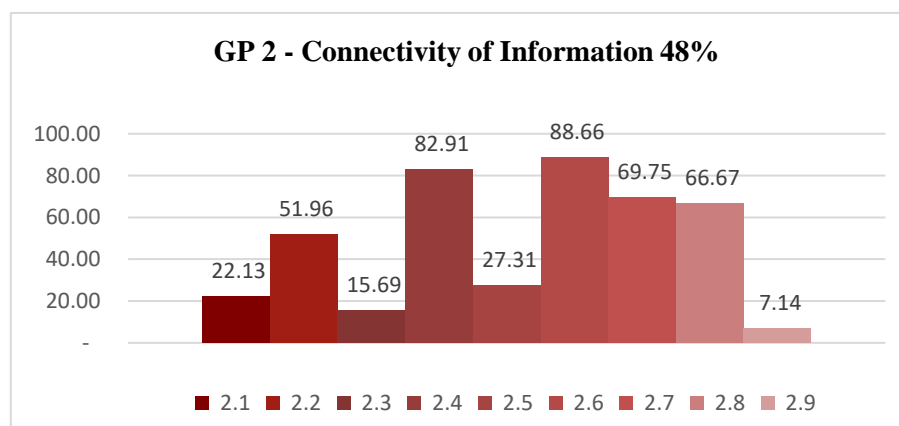


Figure 10.24: Level of disclosure of GP2 – Connectivity of information (Source: Author)

An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organisation's ability to create value over time (IIRCF, p.16, section 3.6). The IR framework further identifies that the key forms of connectivity of information include the connectivity between the content elements; the past, present and future; the capitals; financial information and other information; quantitative and qualitative information; management information, board information and information reported externally; and information in the integrated report, information in the organisation's other communications and information from other sources (IIRC, 2013b, p.16-17, section 3.8). 'The connectivity background paper for IR' showed that connectivity translates integrated thinking into IR, for the organisation to convey a holistic view of the strategy, governance, performance and prospects as in Figure 10.25 below.

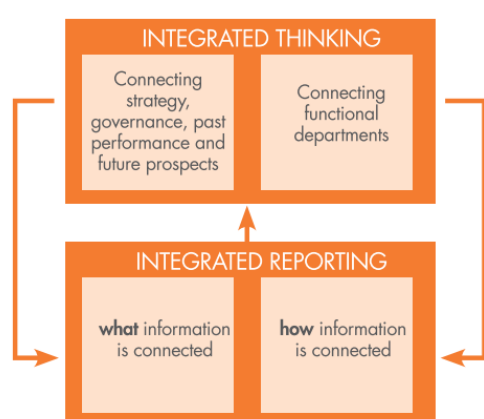


Figure 10.25: Connectivity between INT and IR (Source: IIRC, 2013e)

CFO of MT1 replied as follows when asked what connectivity of information means to them:

*The connectivity means the connection between the systems within an organisation, capitals within an organisation, connections between the various stages of the value chain, for example, distribution might be dependent on warehousing or delivery might be dependent on distribution or warehousing or designing. There are connections. So, there may be millions of connections within an organisation (MT1-1).*

GP2, connectivity of information is responded to at a lower disclosure of 48% with nine individual index items. Out of that, only two items (2.6 and 2.4) were disclosed with a high focus (more than 80%) by the sample companies.

With an 88.7% response level, item 2.6 addressed whether the annual reports included financial information and other information. Throughout the period from 2010 to 2016, the review revealed that most of the entities presented financial and non-financial information and indicators, including indicators related to economic, social and environmental performance.

However, Eccles et al. (2015a) mentioned that in the absence of statements (or graphics) that show the relationships between financial and nonfinancial performance, they view reports not as ‘integrated’, but as ‘combined’. For an example, in MT1, a special section of their report was dedicated to disclosing the impacts (economic, social, and environmental). In 2010, their “sustainability report” section revealed the economic, social and environmental performance, while it was in the “management report” section from 2011 to 2013 and “value creation report” section in 2014. From 2015 onwards, MT1 devoted a separate section named “impact management report” to describe the economic, social and environmental impacts of their value creation activities. These disclosures determine and provide evidence of the connectivity of information that MT1 thought about how financial and non-financial performance affect each other (Eccles et al., 2015).

Item 2.4 reports on an analysis of the organisation of its activities in the past to present period with an 82.9% high adherence level. For example, the connectivity of information of the past, present and future is better evidenced in the “management report” section of the annual reports 2010 to 2013, whereas in 2014 it was clearly presented through the separate section “value creation report” (2014, p.32-78) in “an engaging discussion” section in 2015 (p.32-71) and in “a visible operation” in 2016 (p.36-81).

With a 69.7% moderate disclosure, item 2.7 addressed whether the reviewed reports provided narrative content and qualitative information combined with quantitative financial information in representing the organisation's ability to create value. For example, MT1 followed the GRI standards across the period from 2010 to 2016 as a reference framework used for the preparation of non-financial information. Their reports combined quantitative and qualitative information and included mostly narrative descriptions of the connectivity between quantitative and/or financial information as well as qualitative and/or non-financial information. The presentation of such information became more organised and elaborated in most of the sample company's reports after the incorporation of the IR framework in 2014.

Similarly, with a 66.7% moderate disclosure level, item 2.8 reviewed whether the organisation's external disclosures are consistent with management information and board information. In other words, 66.7% of companies' external disclosures through annual reports were consistent with management information and board information throughout. ‘Auditor’s report’, ‘Audit committee report’, ‘Responsibility statement of chairman and chief financial

officer’ and the ‘Annual report of the Board’ sections provide examples for such consistency. For example, Figure 10.26 shows how AR of B5 refers to other internal reports of the company.

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Figure 10.26: Content page of AR (Source: AR of B5, 2011)

In a similar setting of a developing country perspective, Lipunga (2015) also presented an increase in the number of companies which disclosed such reports in Malawi listed companies based on a disclosure framework prior to the IIRF pronouncement.

Disclosures relating to how the organisation’s strategy is tailored with risks and opportunities is reported in item 2.2 with 52%. For example, although MT1 was not specifically given information about how the organisation’s strategy is tailored with risks and opportunities in 2010 and 2011, relevant information on such was found during the period 2012 to 2016 in their annual reports. MT1 was presenting the associated risks along with the strategic imperatives in 2012 and 2013. From 2014 to 2016, MT1 provided tabulated information which shows an assessment of risks, with the relevant risk mitigation actions and the change in risk profile in relation to different capitals, stakeholders and value creation activities of the organisation (2014, p.98-101). The following illustrations show how MT1’s reports included KPIs (key

performance indicators/measures) (Figure 10.27) and KRIs (key risk indicators) (Figure 10.28) incorporating historical trends and future targets.

## Human Capital

### Key Performance Measures

| Aspect                           | Measure  | 2015/16 | 2014/15 | 2013/14 | 2012/13 | 2011/12 |
|----------------------------------|--|---------|---------|---------|---------|---------|
| Employee attrition ratio         | Employee turnover as percentage of average employees (%) | 17.5    | 17.10   | 17.20   | 21.81   | 21.10   |
| Gender distribution              | Female employees as a percentage of total employees      | 11      | 11      | 10      | 10      | 11      |
| Age distribution                 | Percentage of employees below 40 years of age            | 78      | 81      | 79      | 79      | 81      |
| Employee satisfaction            | Employee Satisfaction Index (%)                          | 62.04   | 62.38   | 61.10   | 53.46   | 62.7    |
| Knowledge and skills development | Average training hours per employee                      | 17      | 15.65   | 13.10   | 16.00   | 13.52   |

## Environmental Impact

### Key Performance Measures

| Key Performance Area | Metric  | 2015/16 | 2014/15 | 2013/14 | 2012/13 | 2011/12 |
|----------------------|---|---------|---------|---------|---------|---------|
| Climate change       | Carbon footprint tCO <sub>2</sub> e per Rs. 1 million of Group net turnover     | 0.1917  | 0.2413  | 0.2773  | 0.2292  | 0.1674  |
| Energy               | Total energy consumption (1,000 GJ)   | 68,294  | 60,745  | 52,333  | 60,547  | 78,184  |
|                      | Energy consumption (Giga Joules) per employee (on average)                      | 44      | 40      | 34      | 42      | 58      |
| Water                | Total water consumption (M <sup>3</sup> )                                       | 104,049 | 87,081  | 90,487  | 101,984 | 75,640  |
| Water recycled       | Ground water recycled and reused as a percentage of total water consumption (%) | 18      | 31      | 24      | 21      | 15      |
| Waste                | Total hazardous waste sent for recycling/reusing - Kg                           | 138,090 | 111,781 | 125,153 | 132,364 | 65,989  |
|                      | Total hazardous waste sent for recycling/reusing - Litres                       | 106,468 | 106,000 | 107,646 | 105,506 | 94,267  |

Figure 10.27: KPIs for human capital and natural capital (Source: MTI AR 2016, p.47 & 65)

Items 2.5, 2.1, 2.3 and 2.9 are reported at lower level of compliance of GP2. Item 2.5 reports on the relationship between capital in the process of value creation with 27.3%. While few companies were found with non-disclosure of information relating to item 2.5 throughout the seven years (for example, CN3, HT3 and PW1), information reported on such was only found after 2014.



| <b>Early Warning Alarm System</b>                            | The Company has developed an early warning system. The following diagram depicts the warning indicators relied upon:      |
|--|---|
| Key Risks  | Early Warning Indicators  |
| Credit Risk  | Provision for Bad Debts-trend<br>Average Debt Collection period-Business Unit-wise  |
| Obsolescence of Inventory                                    | Provision for slow moving Inventory - trend<br>Stock Holding Period-Business Unit-wise                                    |
| Fraud & errors<br>Information Technology/ Data Security Risk | Reported acts of fraud and error<br>Record of failures in the IT system<br>Security breaches.                             |
| Relationship with Principals                                 | Principal's satisfaction Index<br>Revenue trends by each principal<br>Market Share (Percentage)<br>Actual Sales Vs Budget |
| Composition of Product Portfolio                             | Segmental Information   |
| Foreign Exchange Rate Risk                                   | Foreign Exchange fluctuation-trends   |
| Interest Rate Risk   | Movement in Treasury Bill rates,<br>Market Liquidity  |
| Human Resource   | Staff Turnover Ratio(Business Unit wise)<br>Employees Satisfaction Index  |
| Sustainability Associated Risks                              | Different indicators as set out in the management<br>report and the GRI Index   |
| Natural Disasters  | Media announcements,<br>Weather forecasts   |
| Liquidity  | Current ratio<br>Quick assets ratio<br>Unutilised banking facilities<br>Cash and cash equivalents                         |
| Customer Relationship  | Customer Satisfaction Index<br>Repeat Customer Ratio<br>Customer Complaints reports                                       |
| Industry Trends  | Industry performance reports<br>Economic Indicators   |

Figure 10.28: Key risk indicators (Source: MTI AR 2011, p.137)

Exceptionally in MT1, except for the year 2010 which had no information on the relationship between capital in the process of value creation, during the period from 2011 to 2013, information on the relationship between capitals and financial value creation was shown in their ARs. Whereas from 2014 onwards, MT1 reported on the relationship between capital and process of VC, depicting that in value creation model or BMs (for an example, Figure 10.29).

## Our Business Model

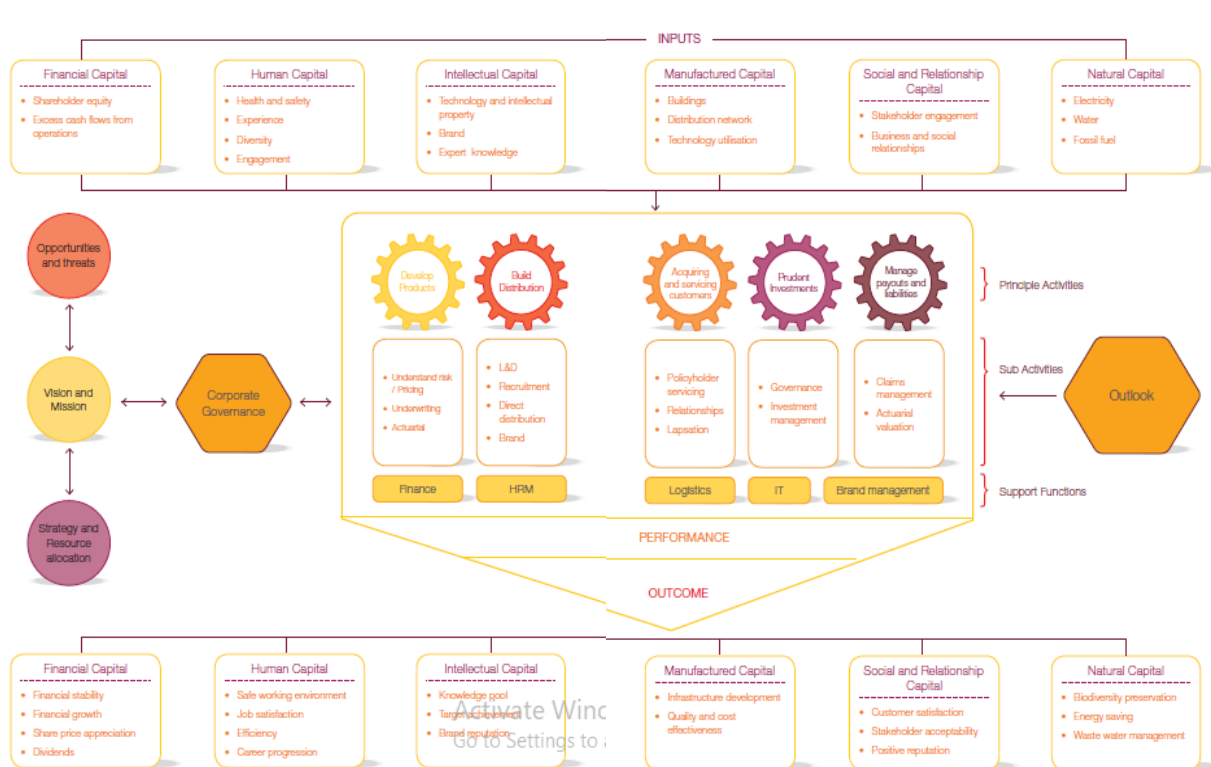


Figure 10.29: BM showing capitals and VC (Source: AR of IN2 2015, p.16 & 17)

In connectivity, whether the organisation reports on the link between its strategy and business model with changes in its external environment (IIRCF, p.16, section 3.8) is analysed in item 2.3. It was recorded at a very lower level of 15.7%. As in previous item 2.5, item 2.3 also links with the BM. Item 2.3 was also reported by a few companies only after 2014, confirming Sukhari and de Villiers (2018) who found that companies disclosed extensive information regarding their BM and strategy by 2014.

For example, this information was not disclosed in MT1's annual reports during the time 2010 to 2013. From 2014 onwards, MT1 depicted the relationship between its strategy, business model and the external environment in MT1's value creation model (2014, p.32-33; 2016, p.28-29).

With a lower disclosure of 22.1%, item 2.1 reports on its existing resource allocation and how the organisation will combine resources or make further investment to achieve its targeted performance. No information was found in most of the companies during the period 2010 to

2014, except a few in the banking sector (IN2 & IN4) and non-banking sector companies (MTI, DH1, PL1, MN1) from 2015 onwards. For example, MT1 disclosed on its existing resource allocation and how the organisation combined resources. To achieve its targeted performance based on its supply chain activities' connectivity with business segments and capitals, from 2015 onwards MT1 showed the criticality of supply chain activity to business segment and criticality of capital to the supply chain activity (2015, p.57; 2018, p.31) (Figure 10.30). No specific information was found on MT1's analysis of existing resources allocation during the period from 2010 to 2014.

When asked for the reasons for hardly any information on resource allocation in this connectivity of information, the CFO of MT1 replied that:

*It is not easy. It is difficult. We have taken many attempts. And this is an area that we want to improve. That's why I told that management systems have not developed to that extent. If somebody says, allocation of resources is important for an organisation, so why it is not being managed. If it is being managed, then there is enough information for the report. So that is why I said, technology and those things play a big role in time to come (MT1-1).*

Exceptionally, DH2 was found with full disclosures relating to item 2.1 from 2010 to 2016. It was reported in a separate section called "portfolio movement and evaluation" from 2010 (Figure 10.31) to 2015 and in 2016 it was reported under the section "strategy, resource allocation and portfolio management" (DH2 AR, 2016, p.75-80).

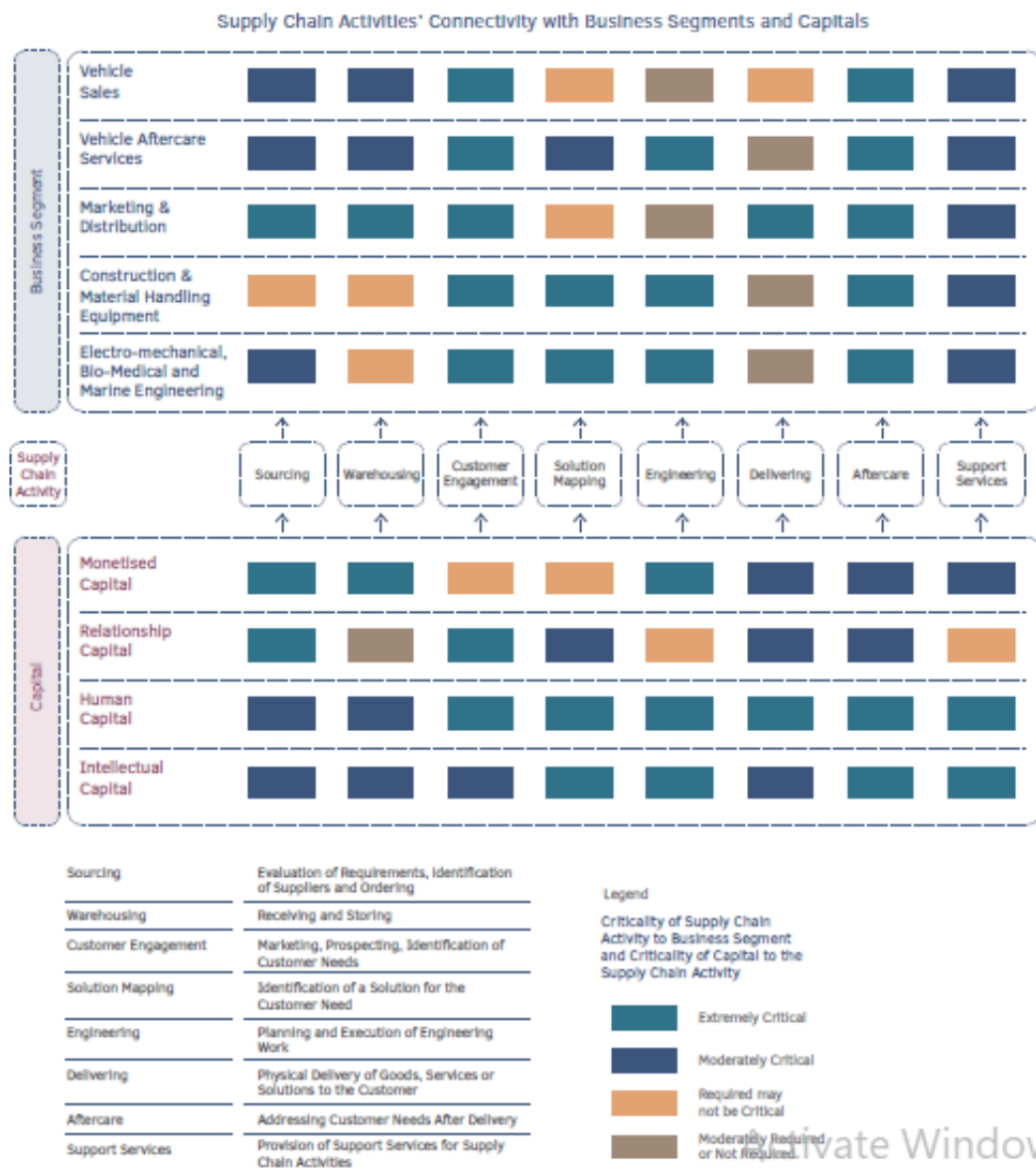


Figure 10.30: Basis for resource allocation (Source: MT1 AR 2015, p.57)

## PORTFOLIO MOVEMENT AND EVALUATION

The JKH Group has been reaping the benefits of actively managing and evaluating its portfolio of businesses. The Group has been identifying and investing in better performing sectors of the economy, while reducing its exposure in the underperforming industries. This has enabled the Group to strike a right balance in its widely diversified portfolio and consolidate its position.

The process undertaken for this purpose is based on continuous evaluation and review of the performance, potential and longer term prospects of our industry groups, sectors and companies, grounded on four filters -

- "Financial filter" - that has the JKH hurdle rate (required rate of return) as its cornerstone
- "Growth filter" - which evaluates a business in terms of its industry attractiveness
- "Strategic fit" - that critiques the long term competitive advantage of a business/industry by evaluating the strength of competitive forces, specific industry/business risks, ability to control value drivers and the complementarities and critical success factors already inherent in the Group company
- "Complexity filter" - which considers factors such as senior management time and the risk to brand, image and reputation

JKH's hurdle rate is a function of the weighted average cost of capital (WACC), derived from the Group's cost of equity, cost of debt, target leverage, tax rates and the value creation premium required over and above the WACC. Strategic business units are assessed for risk under headings such as customer concentration, supplier/JV partner dependence, risk of international entrants, labour dependence, cyclicality, dependence on Sri Lankan economy, and regulatory dependence etc.

The Leisure Industry group saw an increased ROCE during the year. The City Hotels sector demonstrated increases in its ROCE despite the investment to facilitate the refurbishment and rebranding of Cinnamon Lakeside. In addition, the positive trend in the tourism industry in Sri Lanka enabled the Resort Hotels sector to achieve a positive ROCE as opposed to the negative ROCE in the prior year. A substantial level of capital

was raised in March 2010 through the John Keells Hotels rights issue to facilitate new investments and improvements in the Resort Hotels sector. As the capital was raised at the end of the year, it had a disproportionate impact on the capital employed of both Sri Lankan and Maldivian Resorts. The Hotel Management sector continued to make a healthy contribution towards the overall ROCE of the industry group. The Destination Management sector, which earned a return over and above the Group's hurdle rate during the financial year in concern, saw an improvement primarily due to the pick up in tourist arrivals.

The Plantations sector continued to generate a return over the Group's hurdle rate, owing to the improved performance due to the increase in crop prices during the financial year.

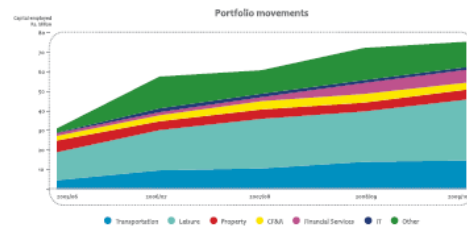
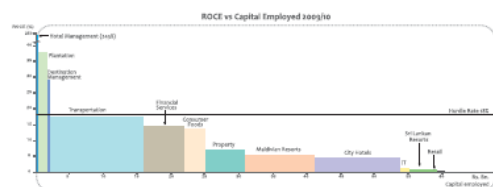
The Transportation Industry group recorded a ROCE of 17.3 per cent. The EBIT margin improved to 46.9 per cent from 15.2 per cent in the previous year, as a result of an improved performance mainly from the Ports and Shipping arm.

Consumer Foods sector saw its ROCE fall to 9.4 per cent from the prior year level of 46.9 per cent. This was mainly due to the low EBIT performance from the Indian operations of Keells Foods, which offset the positive impact from the substantial reduction in the debt position of Ceylon Cold Stores (CCS). In contrast the Retail sector saw its return improving to positive figures in the current year as a combined effect of decreased borrowings and positive EBIT for the year.

Financial Services Industry group saw an increase in its ROCE mainly due to the full year's share of the Union Assurance profit being consolidated in the financial year. In addition, the stockbroking arm too performed well with a substantial level of EBIT earned in comparison to the previous year, in line with the excellent year experienced by the Colombo stock market.

The ROCE of the Property Industry group decreased to 6.7 per cent from last year's level of 10.3 per cent. The reduction is attributable to the decrease in EBIT as discussed in the Industry Group Analysis section of the report.

IT Industry group mainly backed by the upturn in EBIT in the BPO operations in India, displayed a positive improvement in its ROCE in comparison to the negative levels of last year.



|                                    | 2008/09   | 2009/10   | 2008/09   | 2009/10  |
|------------------------------------|---|---|---|--|
| <b>Investments</b>                 |   |   |   |  |
|                                    | Construction of resort on Alibon for USD 10.5 million   | Ru. 375 million subscribed to the NTA rights issue to maintain stake at 10.9 per cent | Ru. 1.75 billion in South Asia Gateway Terminals and increased stake to 43.2 per cent                       | Acquired a 24.4 stake in Central Hospital (Pvt) Ltd for Ru. 900 million  |
|                                    | 15 year risk lease on Chendikulam Island in the Maldives for USD 21 million                   | Ru. 4.5 billion in John Keells Hotels and increased stake to 51.89 per cent           | Ru. 70 million in Keells Food Products and increased stake to 83.2 per cent                                 | Gained full control of Madhuvana American Express Travel with the purchase of a 50 per cent stake for Ru. 14 million |
|                                    | 10 per cent stake in Associated Motorways for Ru. 0.7 billion                                 | Investments of USD 6 million in the completion of the Alibon resort                   | Ru. 598 million in Ceylon Cold Stores and increased stake to 80.5 per cent                                  | Additional equity injection of Ru. 20 million to John Keells Logistics Lanka   |
|                                    | 14 year risk lease on Ilaladen Island in the Maldives for USD 0.5 million                     | Ru. 100 million in John Keells and increased the stake to 80 per cent                 | Ru. 100 million in John Keells and increased the stake to 80 per cent                                       | Reacquired Holiday Resorts purchased a 6.8 acre block of land for Ru. 20 million                                     |
|                                    | Additional 7.5 per cent stake in South Asia Gateway Terminals for Ru. 3.8 billion             | Ru. 1.0 billion investment in Union Assurance and increased stake to 80.5 per cent    | USD 0.5 million for remaining 49 per cent of Mackinnon Keells Enterprises and Madhuvana Keells Air Services | Invested Ru. 100.6 million to convert Nations Trust Bank majority to shares  |
|                                    |   |   | USD 5.2 million for 44 per cent equity stake in Quattro - Finance & Accounting Solutions                    | Subscribed to 100 million shares from the John Keells Hotels rights issue investing Ru. 1.95 billion                 |
| <b>Mergers &amp; Restructuring</b> |   |   |   |  |
|                                    | Sports and Recreation Resorts merged into parent Ceylon Holiday Resorts                       |   |   | Walden Air Services was amalgamated with Mack Air with the surviving entity being Mack Air (Pvt) Ltd                 |
|                                    | Four Destination Management sector companies merged into Walden Tours                         |   |   | State Information Systems Associates divested to John Keells Computer Services for Ru. 40 million                    |
|                                    |   |   |   | Three Holiday Resorts purchased the Club Oceania hotel for a net consideration of Ru. 900 million                    |
| <b>Investments</b>                 |   |   |   |  |
|                                    | 24 per cent of Keells Restaurants and 28 per cent of Cinnamon Restaurants for Ru. 0.3 billion | Chromatone Walk-In for a consideration of Ru. 80 million                              | 10 per cent stake in ARNW for a consideration of Ru. 1.50 billion   | 150 million shares from the John Keells Hotels rights issue for Ru. 250 million                                      |
|                                    | Property owned by Keells Realtors for Ru. 0.5 billion   | 24 per cent stake in Keells Business Systems (KBS) for Ru. 20 million                 | Remaining 48 per cent of Keells Restaurants for a consideration of Ru. 40 million                           | Remaining 48 per cent stake in KBS for Ru. 1.2 million   |
| <b>Changes in capital</b>          |   |   |   |  |
|                                    | Preference issue of Ru. 1 billion   |   | Preference issue of Ru. 10 million  | Purchase of 10.5 million shares amounting to Ru. 2.50 billion  |
|                                    | Right issue of Ru. 10.5 billion   |   |   | USD 25 million loan from the International Finance Corporation   |

Figure 10.31: Portfolio movement and evaluation (Source: DH2 AR 2010, p.41-42)

The least disclosed item is 2.9 which discloses of the links used by organisations to facilitate access to other reports, communications and information from other external sources enabling a report to be tailored to the needs of each user. The framework identifies that connectivity of information is enhanced when it logically structured, well presented and includes effective navigation devices and cross-referencing.

Many reports included only a few links to other sources over the period 2010 to 2016, mainly online references on supplementary information. Very few reports were found providing navigation "how to read the report" section with page references, especially after 2015. For example, one of the conglomerates, DH4, provided a helpful page at the front, titled "about the report", which introduces symbols used for cross-references to the web, to other sections of the report or other group reports (Figure 10.32).

# An introduction to the contents of this report

We are pleased to present to stakeholders our integrated annual report for the year ended 31st March 2016. The report covers the integrated economic, social and environmental performance of the companies in which Aitken Spence PLC has significant operational and management control, including activities in South Asia, the Middle East, Africa and the South Pacific. The report provides information on our Group level operations and financial performance of subsidiaries, joint ventures and equity accounted investees. The names and details of the companies are set out in the Group Companies and Directorate section of this report.

 The names and details of the companies are set out in the Group Companies and Directorate section of this report.

 The sustainability strategy of Aitken Spence PLC is discussed in the Management Discussion and Analysis and Our Strategy sections of this report.

 Methods used, assumptions made and exclusions from the reporting boundary to measure and evaluate our performance are also explained in the sector reviews.

 A comprehensive shareholder feedback form is available at the end of the report so that the disclosures in future reports can be improved to suit the reader's needs.

We have continued to report our performance "in Accordance" – Core with the Global Reporting Initiative's G4 Reporting Framework to disclose performance information on our sustainability priorities. We also follow the guidelines of the International Integrated Reporting Council (IIRC) to illustrate the cohesion between our priorities, resource streams, operations, processes and the performance. With the guidelines from these two reporting standards, the reporting practices across the Group were improved to capture more comprehensive performance disclosures across Aitken Spence PLC.

The sustainability strategy of Aitken Spence PLC is discussed in the Management Discussion and Analysis and Our Strategy sections of the report. Aitken Spence is engaged in a stakeholder engagement study with a third party research company and an overview of the key findings is shared in this report. The material aspects and priorities of each sector and the action taken is reviewed in the respective sector Reviews.

The methods used, assumptions made and exclusions from the reporting boundary to measure and evaluate our performance are also explained in the sector Reviews. We have provided material disclosures on governance, ethics, strategy, risk, opportunity and remuneration in relation to our financial, economic, ethical, social and environmental performance and prospects, at operating level at the respective sectors. It is our

hope that the annual Integrated report will set the basis for meaningful engagement with our stakeholders in the year ahead.

The financial statements are prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs and LKASs) in alignment with the International Financial Reporting Standards (IFRS), the Companies Act No.07 of 2007, the Listing Rules of the Colombo Stock Exchange, as well as the Code of Best Practices on Corporate Governance Principles 2013 and other related guidance.

A limitation in this report is that the sustainability performance is monitored for our operations only in Sri Lanka and the Maldives. Also, where sustainability systems are still in the implementation process, comprehensive data is not yet available. Our reporting process is driven and supervised entirely by the Internal expertise of the Group. Our short to medium term goal is to make the disclosures inclusive of all operational activities, material and relevant to the impacts and risks within our systems and focus on educating the stakeholders about the operations of Aitken Spence. A comprehensive shareholder feedback form is available at the end of the report to obtain feedback about this report so that the disclosures in future reports can be improved to suit the reader's needs better. Further our social media could also be used to communicate with us for feedback and comments.

## How to navigate this Report



Further reading within this report.



Web link provides reference



Performance data relevant to the Women's Empowerment Principles



Performance data relevant to the UNGC Communication on Progress

This annual report is available in the following formats:



Print



Online

<http://aitken-spence.com/corporate-governance/integrated-reporting/>

Activate Windows  
Go to Settings to activate Windows

Aitken Spence PLC - Annual Report 2015 - 2016

3

Figure 10.32: Report navigation through "About the report" section (Source: DH4 AR 2016, p.3)

Connectivity of information was achieved at a moderate level by the IIRC examples of database companies in Ruiz-Lozano and Tirado-Valencia (2016) and Wild and van Staden (2013).

In KPMG's (2017) study, only 4% of ASX 200 organisations were found improving connectivity and helping readers navigate their AR through the use of icons, symbols, tabs,

page references, and/or links to where additional information can be found, confirming present findings. Barriers in achieving connectivity of information is discussed in Chapter 11.

In order to ensure connectivity of information in the future and to help readers move between relevant connected sections (inside and outside the report) of their reports, companies tend to make use of innovative technology (ACCA, 2017, IIRC, 2013e; IRC SL & CASL, 2017; KPMG, 2017).

#### 10.2.3.6 GP 6 - Reliability and completeness (44.5%)

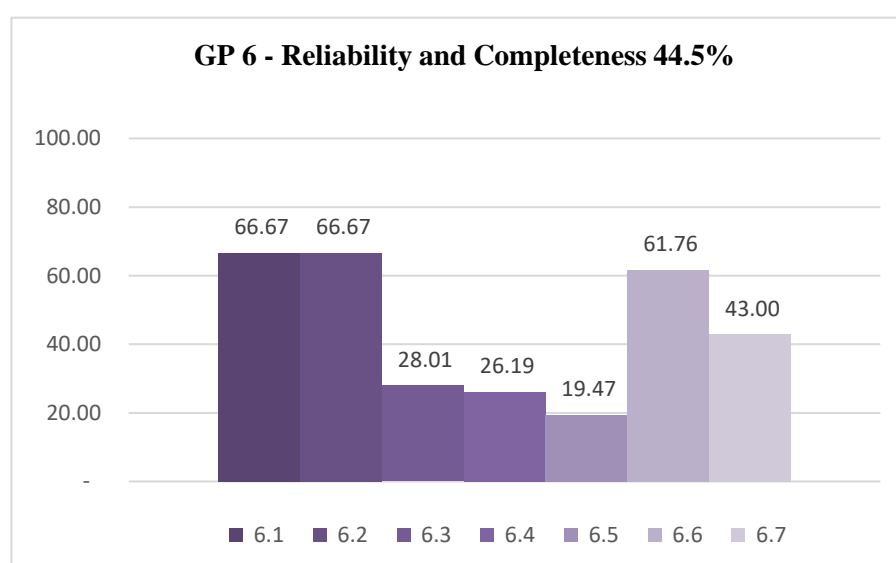


Figure 10.33: Level of disclosure of GP6 – Reliability and completeness (Source: Author)

Reliability and completeness claims that integrated reports should include all material matters, both positive and negative, in a balanced way and without material error (IIRC, 2013b, p.21, section 3.39). While reliability of information is affected by its balance and freedom from material error, completeness of information is involved with the concerns regarding cost/benefit, competitive advantages and future-oriented information (IIRC, 2013b). The selected Sri Lankan companies adopted the GP6 with a low adherence level of 44.5% together with seven individual disclosure items. “Reliability and integrity” as one of the GPs based on IIRC (2011) scored the lowest frequency in Haji and Anifowose (2016b) and Ruiz-Lozano and Tirado-Valencia (2016).

In order to assure that content presented in annual reports is done in a balanced and complete manner, companies linked the positive and negative aspects directly with their value creation. A balanced picture (item 6.1) is shown in the annual reports with 66.7% broadening their value

creation to their stakeholders. The IR framework also affirms the fact that giving equal consideration to both increases and decreases in the capitals, both strengths and weaknesses of the organisation, both positive and negative performance are important methods to ensure a balanced report (ACCA, 2017; IIRC, 2013b, section 3.45).

During the interviews, participants shared their ideas relating to the ‘balanced view’ as follows:

*I think you need to give you a proper picture of the present, so that you can make a fair prediction about future. Because we report is for that purpose. So balance view means, with these information we should be able to come to some conclusion about the future (MT1-1-CFO).*

*If you look at our 2015 annual report, we had a huge loss, and we reported why and what we are going to do and those things we reported for a balanced view (IN1-1-CFO).*

*As a listed company, we must give the right information. So it is the reader to decide balance or not (HC1-1-Head of Finance and Corporate Planning).*

*If you take customer complaints. These are the number of customers’ complaints and the thing that we did to correct those things. Everything is reported and the concept of balance is very precisely addressed (B2-1-Senior Manager Finance).*

*Although, there is always time pressure to provide only the positives, but clients know that we are going for a balanced view and they give us the chance to write a balanced review (ARW1-1-Director).*

Reliability of the information presented in an integrated report could be enhanced by mechanisms such as robust internal controls and reporting systems, stakeholder engagement, internal audit and independent, external assurance (IIRC, 2013b, p.21, section 3.40; IRC SL & CASL, 2017). These reliability mechanisms are explained in index items 6.2 (moderate disclosure of 66.7%) and 6.3 (lower disclosure of 28%). During the AR review it was found that “Internal audit committee report”, sections of internal controls, “Annual report of the Board”, “Statement of directors’ responsibilities” for financial statements across the period provide examples for entity reporting on an internal verification (item 6.2) of the content of the report. For example, since 2010, the “Independent auditor’s report” which attests the financial information of MT1 and the “Independent assurance statement on non-financial reporting”<sup>25</sup> which assures the external and independent verification would also convince the reliability of MT1’s annual reports to the readers of the report. However, more than 50% of the non-banking

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<sup>25</sup> External assurance is gained from a global provider of certification, verification, assessment, training services and assistance to build sustainable business performance. Which is DNV GL.



sector companies (CN1, CN3, DH3, DH4, HT1, HT3, MN1, PL1, TLC1) were found with no external assurance causing the lower adherence to item 6.3 (28%). Yet, except for two banking sector companies (IN1 and IN3) others obtained such assurance. External assurance aspect is discussed further in Chapter 7 and Chapter 11.

Some IR practitioners communicated the following, sharing why they obtained external assurance:

*We have an internal audit department and external auditors so that side we have improved quite a lot and because of that we don't worry about audit fee. Every time we see how we can improve our performance and the quality of the work (TR1-1-Group CFO).*

*There is a responsibility to assure the content to confirm the going concern. Not only the financial means, non-financials also. Isn't it? That's the management audit part (B1-1-CFO).*

*It makes sure that minimum requirement is been done. Not only that, the gaps we have made. And after the audit, they will issue a management letter and they will mention about the thing that we can improve and the weaknesses that we have. It is independently being checked, therefore they will verify this integrated reporting, GRI, everything (B2-1-Senior Manager Finance).*

However, an auditor's and an ARPC's view were different:

*There are some companies they want to actually do a value addition, who send us the report from the beginning, and they work for it and there are some who just want to get an assurance just to publish it... We have done a plantation company audit this year, then what happens next year sometimes, one of their competitors came to us and say we want to get an assurance. That's how it increases. Until we start one of the sectors, it will not happen, once somebody starts, their competitors also want to get it (AU1-1-Manager Transaction Advisory Services).*

*There are a few companies which really take it into heart, and they do something and then they report about it, but for bulk of them, these reports are highly exaggerated, especially the social and environmental side of it. For financials they cannot do that, because auditors are behind that and they provide assurance (ARPC1-1-Senior Executive).*

The assurance obtained for the sustainability information is given as limited assurance by the audit companies in Sri Lanka (limited assurance on sustainability information is further explained in Chapter 11 under the section 'assurance on IR as a challenge'. In a similar study, assurance on non-financial information ranged considerably from no assurance to limited assurance to reasonable assurance (Stent & Dowler, 2015).

Despite those who have obtained external assurance, the following reasons were identified from the point of view of the non-adopters of external assurance:

*This is expensive and very tough, and it is time consuming (PL1-2-GM Finance).*

*Due to certain time factors we were not able to get that done, but, there is no decision as not to take it as well. This year as well it will not have any certification, but in next year if time permits we might do (HT1-1-Finance Controller).*

*MD won't do those. He said no point. You do whatever you do, report it, that's it and don't go for those things (HT2-1-Director Finance).*

*At this moment, I don't think. Because we are slowly improving ourselves. We think that we need to improve, and we are doing it. I think it's not an advisable thing at this moment, because we need to make ourselves confident (TLC1-1-CFO).*

By nature, future-oriented information is uncertain, however, IIRC (2013b) identifies that uncertainty is not a reason in itself to exclude such information. Future-oriented information is explained in index item 6.6 with 61.8% moderate disclosures. This links with the index item 1.7 of GP1 strategic focus and future orientation which explained the board's views on future strategic directions and CE6 'outlook' as well. Taking from MT1 report reviews, despite the information disclosed on item 1.7 since 2010, MT1 also reported on a dedicated sub-section called "outlook"/"segment outlook" or "business outlook" under each of their business segment/value creation activities in their business report/value chain management report.

Reporting against previously reported targets, forecasts, projections and expectations also ensures a balanced report (IIRC, 2013b). A few companies in the sample provided detailed information all throughout about significant estimates and judgements made by management and board (index item 6.7 with 43% low disclosures) in their audit committee report, responsibility statements, statement of directors' and in the financial information section. Clear communication of the nature and limitations of the estimations ensures the freedom from material error (IIRC, 2013b, section 3.46) too.

As the framework identifies, freedom from material error does not imply that the information is perfectly accurate in all respects, but it does imply that the entity has taken steps to reduce the level of risk of reporting information containing a material misstatement. Whether the sample companies' ARs referred to the material errors is identified in item 6.5, and it was reported at a lower response level of 19.5%. For example, from the MT1 reports, the review found that until 2014 MT1 failed to refer to the material errors in their reports. However, from 2015 onwards, MT1 reported on the partly and fully omitted information in their GRI content index with the reason of not disclosing. Including information about material matters and disclosing of future-oriented information determines the completeness of the information disclosed and its level of specificity or preciseness (IIRC, 2013b).

Effective leadership and decision-making regarding the preparation and presentation of an integrated report, including the identification of the employees actively involved in the process (IIRC, 2013b, p.21, section 3.41) of IR, are some of the other facts that lead to ensure the reliability of the integrated reports prepared by entities. This is measured in item 6.4. Many companies did not report on identification and oversight of the employees actively engaged in the IR process, resulting in a lower disclosure level of 26.2%. MT1 failed to provide specific information relating to such leadership and involvement of employees in the process of preparation of integrated reports over the period of analysis considered.

This 26.2% of disclosures were related to the contact person/division information given in annual reports. Subsequently, when the interviewer asked for the reason for non-disclosure of the team or the supportive staff who was engaged in preparing this AR, the respondents shared the following reasons:

*From time to time, due to transfers, there is a change of people, so the division get affected (SB1-1- Deputy General Manager/DGM Finance and Planning).*

*The problem is, if you reveal the names and if some names are left out, then there is another problem. I mean, it's a collective effort. So I would say everybody, I mean, contributes. If you take our finance division, we have lot of employees. So turning out the financial reports, everybody would have made a contribution. So that could entail putting all their names, or of course, we can put the key people. I mean, so you have to have a demarcation like deputy general managers and above or the general managers and above, something to that. Otherwise, then there are other guys who are junior employees who have made a huge effort. So those issues are there. It is sensitive, issue (TLC1-1-CFO).*

*That is a management decision. For everything the Board is responsible. Even for the annual report (DH3-1-Group CFO).*

Issues related to the reliability and completeness are addressed in Chapter 11.

### 10.2.3.7 GP 5 - Conciseness (29.5%)

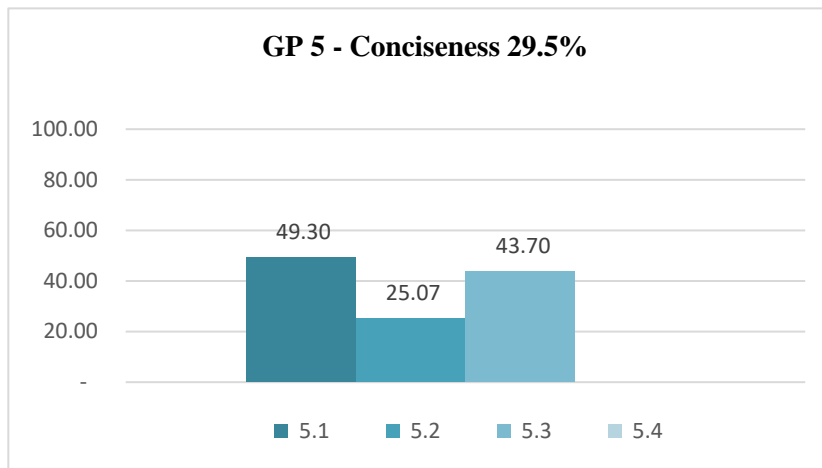


Figure 10.34: Level of disclosure of GP5 – Conciseness (Source: Author)

The least reported GP (only 29.5%), conciseness, is explained through four items. Notably, all the four items are less than 50% as low disclosures. Similarly, in Ruiz-Lozano and Tirado-Valencia (2016), the conciseness principle was one of the least-scored GPs. Contradictory results were found in Haji and Anifowose (2016b), where conciseness was ranked as the third-highest GP.

Application of the materiality determination process, following a logical structure while including cross-references as appropriate to limit repetition and links to more detailed information that does not change frequently or external sources, position at the gateway in achieving conciseness (IIRC, 2013b). It further pronounces that an integrated report should avoid highly generic disclosures that are not specific to the organisation.

As reviewed through item 5.1 (49.3%), in order to enable the user to understand the methodology used in including the sufficient context of the entity's strategy, governance, performance and prospects without being burdened with less relevant information, companies reported on the materiality determination process which dealt with the material aspects of the entity all throughout the seven-year period of analysis. Thus, the index no. item 5.1 in the conciseness principle directly connects with item no. 4.1 in the materiality principle. In terms of the report content, item 5.3 (43.7%) assured that the content included is not generic but tailored to the company and its industry. From the perspective of stakeholder theory, Chersan (2015) stated that it becomes increasingly difficult to establish what content should have an IR.

Companies being strict about the content both in terms of length and topics covered was clearly visible in their reports after 2014. Particularly, these reports covered all the ‘fundamental concepts’ of IIRC (2013b), such as value creation, capitals, business model, guiding principles and content elements, and in a logical and clear structure. This can be clearly identified by comparing the pages of “content” of a report after 2014 and prior. For an example, in MT1 in 2010, the report content consisted of four subdivisions, namely, management report, sustainability report, governance report and financial report. In 2012, it was context, management report, stewardship, financial reports and appendices. A value creation report and risk management were the additions to the content in 2014, along with incorporation of the IR framework in MT1’s corporate reporting practice.

Although cross-referencing was hardly found throughout the annual reports, it was not used appropriately in terms of limiting repetition and a logical structure, thus resulting in a lower level of adherence to index item 5.2 (25.1%). Item 5.2 links with item 2.9 in GP2. Abeysekera (2013) proposed integrating different types of content (narrative, numerical figures, links, etc.) to achieve this principle, due to the difficulty of effectively communicating the value creation process of an organisation with a short-, medium- and long-term strategic approach.

Due to the lack of clarity available in the area of the conciseness principle, it can also be explained from the viewpoint of the number of pages of the report or rather the size of the report. A report consisting of 275 pages is also considered quite a big report in terms of the size of the report in Dumitru et al. (2013). Figure 10.35 shows that MT1 exceeded the page limit of 200 in 2018 despite its attempt to maintain the number of pages within a range of 150 to 200 pages. (Section 7.9 in Chapter 7 and links with this length of the reports reviewed of the sample companies.)

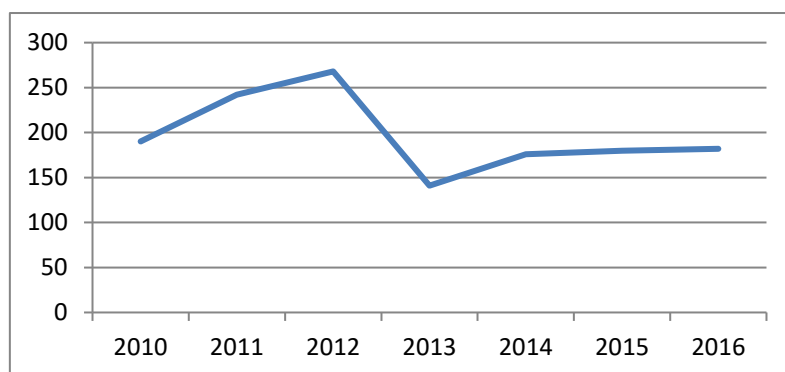


Figure 10.35: Length of MT1’s reports (Source: Author)

One of the participants from the diversified holdings sector shared his views relating to MT1's size of the reports (as shown in Figure 10.35):

*From the beginning, [MT1] is heading towards the conciseness. They relatively maintain conciseness of their reports since the year 2010 (DH1-3-Accountant).*

Majority of the organisations in Wild and van Staden (2013) provided very detailed and lengthy integrated reports, between 100 and 250 pages long.

Nonetheless, MT1 did not respond to item 5.4 (0%) which requires the entity to follow the conciseness principle and publish a concise integrated report. One of the participants in panel session in IR workshop shared views regarding this "0" value as follows:

*That is an issue for all these people. That is why you got '0' for there. Or, the zero ratings. That's quite understandable. The only company is the B6 is which is having a concised report, which we have been doing for the last six years (Panel session of IR workshop, participant ARPC1-1).*

Similar findings were revealed in ACCA (2017). Of the 20 reports specifically named as integrated reports in ACCA (2017), eight had over 150 pages. Many reporters find conciseness difficult as they try to provide sufficient context to help readers understand the organisation's value-creation process and performance (ACCA, 2017).

Most of arguments prevailing in integrated reporting academic research always come across through this conciseness principle. One of the reasons would be the IR framework explanations on the concept itself which opens the discussion to somewhat controversial stances. For example, the framework identifies that an integrated report should be concise (2013b, p.21, section 3.36) and, on the other hand, it states that an integrated report includes sufficient context to understand the organisation's strategy, governance, performance and prospects without being burdened with less relevant information (2013b, p.21, section 3.37).

As highlighted by Wild and van Staden (2013), longer reports seem at odds with one of the IR GPs, conciseness, reliability and materiality. It would rather be a trade-off between inclusiveness and conciseness. The trade-off between materiality and conciseness together with the issues and challenges relating to conciseness of reports are discussed in Chapter 11, under the section 'conciseness as a challenge'.

With respect to the seven GPs in IIRF, the disclosure items with higher frequencies (Table 10.9) and lower frequencies (Table 10.10) are presented below.

Table 10.9: Disclosure items with higher frequencies (&gt;80%)

| Item No. | Guiding Principle Item   | %    |
|----------|--|------|
| 1.3      | Organisation discloses on identification of significant risks with a credible risk                         | 85.2 |
| 2.4      | Organisation reports on an analysis of the organisation of its activities in the past to                   | 82.9 |
| 2.6      | Company reports include a reference to the framework used for the preparation of non-financial information | 88.7 |

Table 10.10: Disclosure items with lower frequencies (&lt;50%)

| Item No. | Guiding Principle Item   | %    |
|----------|--|------|
| 2.1      | Organisation reports on its existing resource allocation   | 22.1 |
| 2.3      | Organisation reports on linking organisation's strategy and business model with changes in its external environment                      | 15.7 |
| 2.5      | Organisation reports on the relationship between capital in the process of value creation  | 27.3 |
| 2.9      | Organisation discloses links to facilitate access to other reports, communications and information from other external sources           | 7.1  |
| 3.2      | Company reports on how stakeholder insights are used to develop strategy and evaluate  | 42.7 |
| 4.1      | The report includes the process of materiality determination process   | 49.4 |
| 4.2      | Reports provides judgment from different perspectives, both from internal and external stakeholder engagement in determining materiality | 42.9 |
| 4.3      | Company reports on the identification of matters, magnitude of a matter's effect and prioritisation of matters                           | 42.6 |
| 4.5      | Company reports on risks, opportunities and outcomes associated with other entities and also stakeholders                                | 49.3 |
| 5.1      | Company reports includes sufficient context  | 49.3 |
| 5.2      | Company reports use interrelationship of sections, cross-referencing within the report and to additional materials online                | 25.1 |
| 5.3      | Company reports are being strict about content-both in terms of length and topics  | 43.7 |
| 5.4      | Company followed the principle 'conciseness' and published a concise Integrated report   | 0.0  |
| 6.3      | Company discloses an external and independent verification in the report   | 28.0 |

| Item No. | Guiding Principle Item  | %    |
|----------|---|------|
| 6.4      | Company reports on the leadership, decision-making and staff involved in the preparation of the integrated report | 26.2 |
| 6.5      | Company reports referred to the material errors   | 19.5 |
| 6.7      | Company reports clearly communicates when information includes estimates, forecasts, projections and expectations | 43.0 |

### 10.3 Analysis of the content elements (CEs)

Table 10.11: The year-wise disclosures of content elements by IR adopters

| Year-wise Average Scores                 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|------|------|------|------|------|------|------|
| <b>Banking Sector companies (17)</b>     |      |      |      |      |      |      |      |
| Total score for 116 items                | 1087 | 1136 | 1224 | 1324 | 1487 | 1590 | 1632 |
| %  | 55.1 | 57.6 | 62.1 | 67.1 | 75.4 | 80.6 | 82.8 |
| <b>Non-banking Sector Companies (17)</b> |      |      |      |      |      |      |      |
| Total score for 116 items                | 1024 | 1062 | 1172 | 1262 | 1375 | 1378 | 1458 |
| %  | 51.9 | 53.9 | 59.4 | 64.0 | 69.7 | 69.9 | 73.9 |

Table 10.11 shows the year-wise average score for 34 IR adopted companies, separately for 17 banking and 17 non-banking companies for seven years. The total score for each year is 1972 (116\*17). Based on the results, it is seen that 17 banking sector companies are superior to 17 non-banking sector companies in terms of their level of adoption of CEs over the seven-year period. As a result, banking sector companies have been able to move from a moderate status (55%-75% from 2010 to 2014) to a high status (83% in 2016) regarding their level of disclosures of CEs in ARs. Yet, based on their average scores, though non-banking sector companies showed an improvement of disclosures of CEs over the seven-year period, they still remained within the moderate level of disclosures from 52% in 2010 to 74% in 2016.



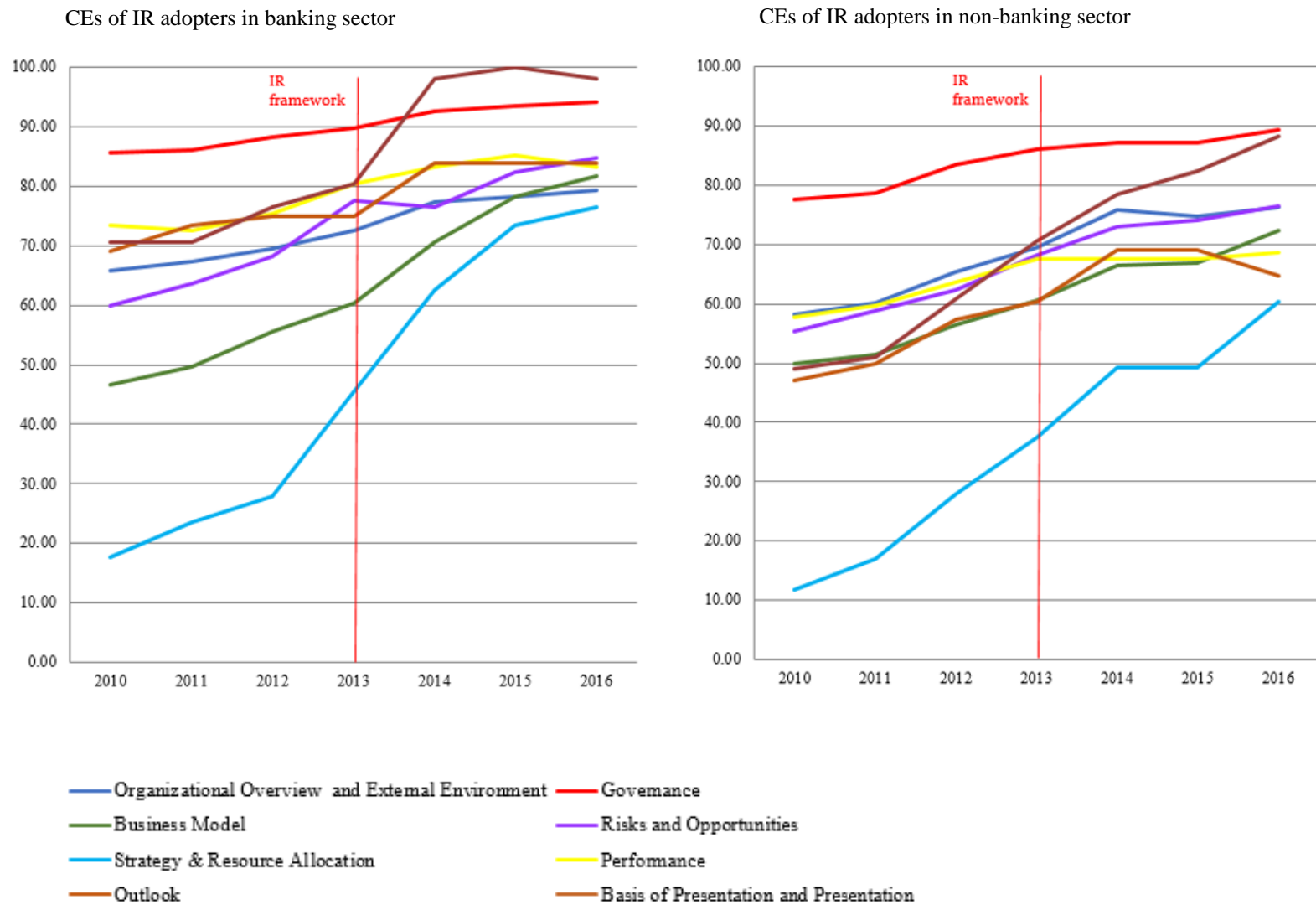


Figure 10.36: Overall disclosure of content elements by banking and non-banking companies (Source: Author)

The extent of disclosure practices of CEs of Sri Lankan IR-adopting companies is further illustrated through the following Figure 10.36, showing two line graphs for banking and non-banking sector separately. Despite the sector, the level of disclosures pertaining to CE1 which discloses ‘organisational overview and external environment’ remained at a moderate level even from 2010 to 2016. Similarly, the disclosures relating to CE5 ‘strategy and resource allocation’ improved from a very low status in 2010 to a moderate level by 2016 in both banking and non-banking sector companies in the sample. While the banking sector indicates high ‘governance’ disclosures (CE3), 86% in 2010 to 94% in 2016, non-banking sector governance disclosures improved from a moderate level of 76% in 2010 to a high level of 89% in 2016.

Most other variances occurred relating to CE3, CE7 and CE8, which address ‘business model’, ‘outlook’ and ‘basis of preparation and presentation’, respectively. While CE3 business model disclosures in banking companies improved from a low 47% in 2010 to a high disclosure of 82% in 2016, the same improved its disclosure status from a lower position of 49% in 2010 to 72% in 2016 in other 17 companies. Disclosure relating to CE7 ‘outlook’ seems to be high in banking sector compared to other companies. Whereas in the banking sector it has improved from a moderate disclosure level of 69% in 2010 to 84% in 2016, the lower disclosure of 47% in 2010 increased to 65% in 2016 to a moderate level. In the last CE, ‘basis of presentation’ (CE8), banking companies reached full disclosure level in 2015, the value dropped down to 98% in 2016. Non-banking companies also achieved a high status of 88% in 2016 from a lower disclosure of 49% in 2010 relating to CE8.

Table 10.12: Average frequencies for content element-wise analysis

| <b>Element-wise analysis of each CE</b>              | <b>Items per CE</b> | <b>Banking-CE</b> | <b>Non-banking-CE</b> | <b>Total CE</b> |
|--|---------------------|-------------------|-----------------------|-----------------|
| CE1-Organisational Overview and External Environment | 21                  | 72.8              | 68.6                  | 70.7            |
| CE2-Governance                                       | 11                  | 90.0              | 84.2                  | 87.1            |
| CE3-Business Model                                   | 58                  | 63.2              | 60.6                  | 61.9            |
| CE4-Risks and Opportunities                          | 5                   | 73.3              | 66.9                  | 70.1            |
| CE5-Strategy & Resource Allocation                   | 8                   | 46.7              | 36.1                  | 41.4            |
| CE6-Performance                                      | 6                   | 79.1              | 64.7                  | 71.9            |
| CE7-Outlook  | 4                   | 77.7              | 59.7                  | 68.7            |
| CE8-Basis of Preparation and Presentation            | 3                   | 84.9              | 68.6                  | 76.8            |
| Average index score                                  |                     | 73.5              | 63.7                  | 68.6            |

Table 10.12 and Figure 10.37 depict the content element-wise average disclosures over seven years by 34 IR adopters. Similar to the year-wise disclosures, the disclosure of CEs by banking sector are superior to non-banking sector in terms of individual item-wise frequencies for eight CEs. The total average index score of 68.6% highlights that Sri Lankan listed companies' extent of reporting towards the eight content elements of IIRF still remains at a moderate level.

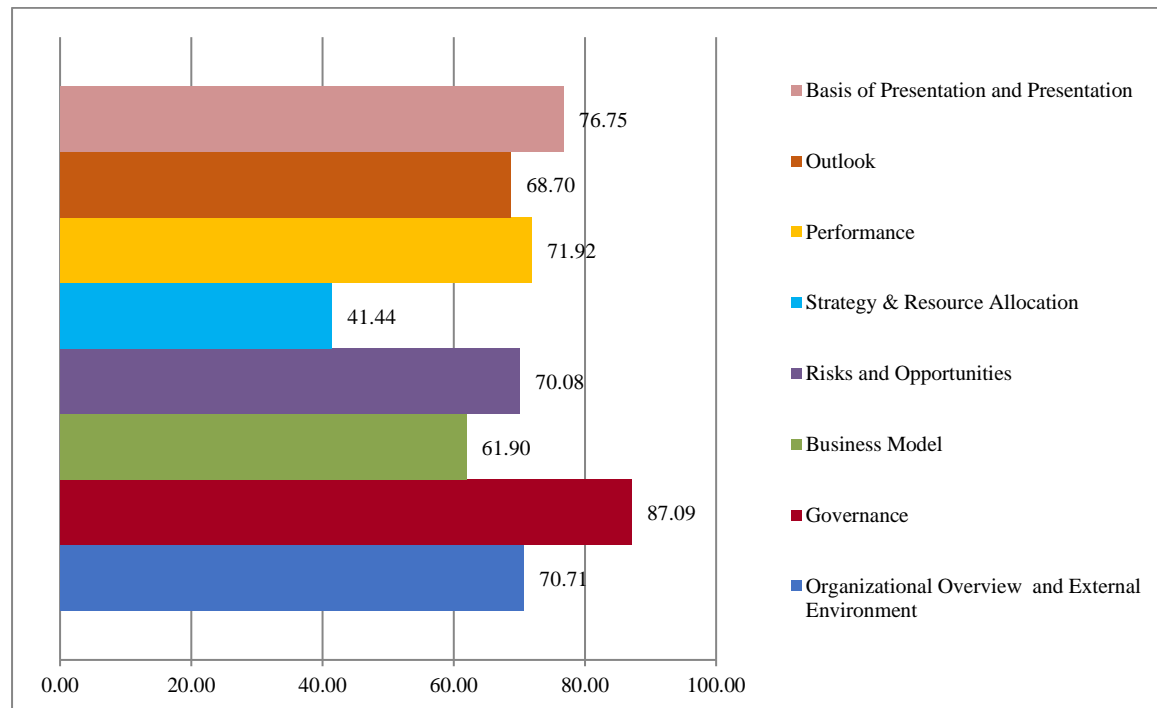


Figure 10.37: Average frequencies for each content element (element-wise analysis of total 34 companies) (Source: Author)

As shown in Figure 10.37, governance was a highly reported CE with an 87% level of disclosure. Except for CE5 'strategy and resource allocation' which is the lowest reported CE among study sample companies, all the other CEs are showing moderate level of disclosures varying from 62% to 77%. CE8 is the second highly reported CE with 77%. Following that, CE6, CE1 and CE4 represented moderate disclosures with 72%, 71% and 70%, respectively. It is then followed by CE7 'outlook' by 69% and CE3 'business model' by 62%.

In the following, CEs are discussed in the order of their highest to lowest disclosure percentages.

### 10.3.1 CE2 – Governance (87.1%)

Sri Lankan listed companies have made extensive disclosures in their ARs relating to the governance disclosures (87%) (CE2). Some of the interview findings also support this:

*The governance of course very strong in our AR. So that perspective we are very comfortable with that. Nothing we need to hide or write in grey, people don't understand, nothing like that. So, it's a very plus point in our AR (IN1-4-Accountant).*

*We have very robust corporate governance in term of reporting (PL1&2-1-Managing Director).*

*You need to have the governance as the first priority, and everything is evolving from the governance as far as IR is concerned (B3-1-CFO).*

One of the semantic categories that display the greatest compliance by JSE listed companies in Doni et al. (2016) was also governance structures. Similarly, in Stent and Dowler (2015) all entities provided mandatory disclosures concerning directors and employee remuneration with regard to their compensation policies and procedures. Drawing from the Australian companies, also the most information was disclosed for “governance” (Liu et al., 2018).

Contrary to present findings, 63% of the 200 ASX listed companies in 2016 had no corporate governance statement or governance summary reported in their ARs and only 5% included an ‘active governance’ summary report highlighting the key areas of focus of the board (KPMG, 2017).

The majority of the items (from 2.1 to 2.10) are highly focused by Sri Lankan listed companies, whereas the least focus was on item 2.11 (reports on responsibility taken by those charged with governance for promoting and enabling innovation).

The present findings are in contrast to Wild and van Staden (2013) where governance was the least achieved CE.

Despite these high governance disclosures based on AR reviews of the Sri Lankan sample companies, interview discussions raised an issue claiming that the aspect of governance is not adequately addressed in the IR framework. This is discussed in Chapter 11 as a challenge in IR.

### **10.3.2 CE 8 - Basis of preparation and presentation (76.8%)**

The IR framework identifies ‘basis of preparation and presentation’ as one of the core CEs in an INR. This clarifies that an INR should answer the question, ‘How does the organisation determine what matters to include in the integrated report and how are such matters quantified or evaluated?’ (IIRC, 2013b, p.29, sec 4.40).

In the present study, the second-highest reported (77%) content element is CE8 ‘basis of preparation and presentation. Similarly, based on disclosure scores, “general reporting guidance” was one out of the three most disclosed GPs in Liu et al. (2018).

All the 17 banking companies reported on index item 8.2 (reports a description of the reporting boundary and how it has been determined) and 8.3 (report provides a summary of the significant frameworks and methods used to quantify or evaluate material matters) representing item value scores of 100% over the seven-year period. In comparison, 17 non-banking companies fully reported on item 8.2 and 68% companies reported on 8.3. Relatively low disclosures were found for item 8.1 (report provides a summary of the organisation’s materiality determination process).

Many companies reported under a number of different reporting frameworks and standards identified by ACCA (2018) as a challenge in defining and applying a consistent materiality process.

### **10.3.3 CE 6 – Performance (71.9%)**

The extent of disclosure of ‘Performance’ (CE6) by IR adopters in Sri Lanka was 72% by the year 2016. Items 6.1 (identification of key quantitative indicators of performance), 6.3 (reports on financial and non-financial results), 6.4 (reports a comparison of results with past data and current performance) and 6.6 (reports on how the organisation has responded to key stakeholders’ legitimate needs and interests) were the most reported items. In the KPMG (2017) study, over 50% of organisations moved on from purely talking about financial position and performance and included narrative and quantitative disclosure on non-financial performance about how the organisation had performed in achieving its strategic objectives.

The least reported items in CE6 were 6.2 (discloses information on the identification of key indicators of risks/KRI) and 6.5 (reports the link between performance and governance). Similarly, no KRIs were found in Stent and Dowler (2015).

The present overall results in CE6 contrast with Wild and van Staden (2013) in which this CE was one of the least achieved CEs.

#### **10.3.4 CE 1 - Organisational overview and external environment (70.7%)**

Moderate disclosures (71.1%) were reported in CE1. This CE was highly disclosed in Liu et al. (2018) as well. All of the reports elaborated on their key quantitative information and their principal activities, markets, products and services (similar to Stent & Dowler, 2015) and included descriptions of their legislative environment, environmental and social impacts.

Lower disclosures (less than 50%) were found pertaining to reporting of organisational culture, norms, company policy towards a corporate citizenship, company position in the value chain, competitor analysis and SWOT analysis.

External environment plays a big role in considering the circumstances under which an organisation operates (IIRC, 2013b). Except for political context, which was reported with limited disclosures, other significant factors affecting the external environment, including legal, commercial, social, and environmental context that affect the organisation's ability to create value in the short, medium or long term, were found reported with high disclosures.

#### **10.3.5 CE 4 - Risks and opportunities (70.1%)**

Overall disclosures relating to CE4 'risks and opportunities' are positioned at a moderate level (70%). It was found that disclosures relating to item 4.1 (reports on specific source of risks from internal and external sources), 4.3 (reports on effective risk management policy to mitigate or manage key risks) and 4.5 (reports on assessment of the likelihood that the risk will arise) were highly focused by the Sri Lankan listed companies. Similar findings were found in KPMG (2017). There, 70% of ASX 200 organisations identified their material business risks as well as explaining how they were being managed or mitigated by the organisation.

The least reported item was 4.2 which addresses whether the company reports on opportunities from internal and external sources. The reasons for such less attention to opportunity was already discussed under GP1-Strategic focus and future orientation (in section 10.2.3.1).

### 10.3.6 CE 7 - Outlook (68.7%)

The average disclosure level for the ‘outlook’ (CE7) was 69%. The most focused items were 7.1 (reports a discussion of the potential implications for future financial performance), 7.2 (reports on review of business performance and strategy in Chairman's or CEO's statements) and 7.3 (reports on significant changes from prior periods). In the present study findings, the CFO of a motor sector company and Deputy General Manager Finance of a state bank shared the following affirmative statements for such disclosures:

*Everywhere possible we ended up incorporating a futuristic picture, for the reason that the whole purpose of this reports is to think about the future. Not to look at the past (MT1-1-CFO).*

*Prospects again is reported at a very high level. This is like our wish-list, we want to be there (SB1-1-DGM Finance and Planning).*

In a similar line of research, the disclosure level for financial and strategic future prospects by ASX 200 companies was 83% (KPMG, 2017). Outlook is related to another forward-looking content element in the IR (ACCA, 2018).

However, the following provides evidence for limited or no discussion of outlook in the present study:

*Outlook was the only challenge (REG1-1-Chairman).*

*What is lacking here is the future prospect, what we are going to do our future strategies, I don't think people are reporting much about that one (IN1-1-CFO).*

*In our industry it is very much difficult to forecast things. The political environment affects us very much. Not the other matters (CN1-1-GM Commercial).*

In this sense, the present research findings confirm the results found in Eccles and Serafeim (2014), which states that providing information on outlook was something that companies were struggling with. Further, similar result were found in ACCA (2016a, 2018) relating to some concerns about disclosing commercially sensitive information and, in some jurisdictions, the risk of legal liabilities arising from making forward-looking statements could be making organisations hesitant about discussing the future. Limited forward-looking disclosures were also presented in several other studies as well (Kilic & Kuzey, 2018b; Liu et al., 2018; Melloni, 2015; Menicucci, 2018; Wild & van Staden, 2013).

Item 7.4 (reports a summary of related assumptions, if forecasts or projections are included in reporting the organisation's outlook) scored low values (in 17 banking companies) and zero

values (in 17 non-banking companies). No specific consideration was given to uncertainties in the future for the businesses in Stent and Dowler (2015) either.

### 10.3.7 CE 3 - Business model (BM) (61.9%)

The 62% disclosure level for CE3 ‘business model’ is explained by 58 individual index items carrying the highest number of disclosure items for a CE. It was noticeable that no disclosures were found for the items from 3.1 to 3.8 and 3.10 in non-banking sector companies from 2010 to 2013. Limited disclosures were found for the same in the banking sector companies during the period 2010 to 2013. Index item 3.11 to 3.50 addressed the six capitals as inputs to the BM and this is discussed in detail in the following section 10.4 ‘Analysis of multi-capitals’. Outputs and outcomes are addressed using the items from 3.51 to 3.56. The last two items of BM, 3.57 and 3.58, are related to VC concept.

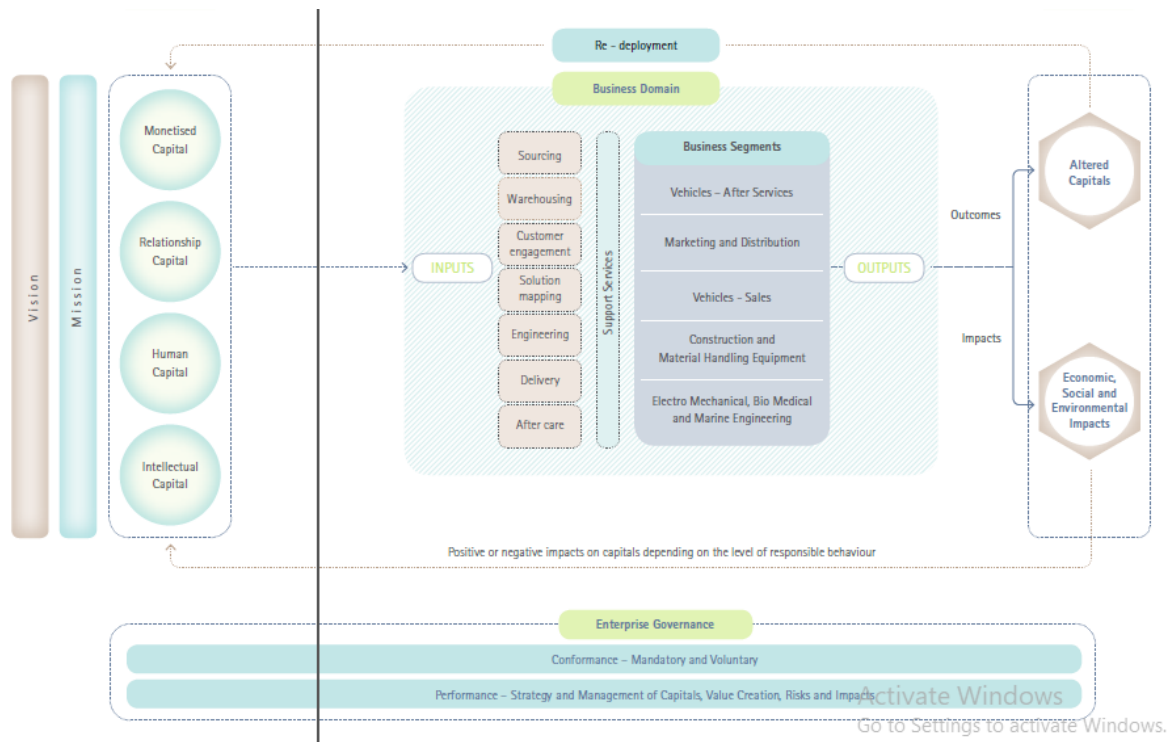
Table 10.13: BM disclosures in sample companies

| <b>BM disclosures</b>  | <b>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> |
|------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| BM as IIRC illustrates | 0           | 0           | 0           | 1           | 3           | 11          | 20          |
| % of 34                | 0           | 0           | 0.0         | 2.9         | 8.8         | 32.4        | 58.8        |
| BM (other)             | 1           | 0           | 0           | 1           | 5           | 4           | 1           |
| % of 34                | 2.9         | 0.0         | 0.0         | 2.9         | 14.7        | 11.8        | 2.9         |
| No BM                  | 33          | 34          | 34          | 32          | 26          | 19          | 13          |
| % of 34                | 97.1        | 100.0       | 100.0       | 94.1        | 76.5        | 55.9        | 38.2        |
| Total companies        | 34          | 34          | 34          | 34          | 34          | 34          | 34          |

Further analysis of the present findings derived the following Table 10.13 which segregates BM disclosures into three: BM as illustrated by IIRC in IIRF, other BM illustrations/discussions and non-disclosure of BM. It was found that BM disclosures based on IIRF only initiated from 2013 onwards. And it has shown an increase over the period from 2013 to 2016 from 1 to 20 companies. Though one company was found in 2010 using BM discussion other than IIRF, the trend of such disclosures declined by the year 2016 (only 2.9%) with more focus on IIRF BM illustrations (58.8%) (for examples, Figure 10.38 and 10.39). Good reporters use a diagram, followed by brief narrative, to communicate their BM more effectively (KPMG, 2017). In 2016, 9% of ASX 200 companies described their business model with enough detail for readers to understand the key inputs, business activities and outputs of the organisation (KPMG, 2017; Liu et al., 2018). However, by 2016, 38% of the sample companies were not reporting on any BM disclosures. The reasons for such non-disclosure of BM is discussed in Chapter 11 as challenges.



A helpful diagram illustrates the company's value creation process referring to all six types of capital, identifying relevant forms of those capitals for the business and the various outputs and outcomes (KPMG, 2017).



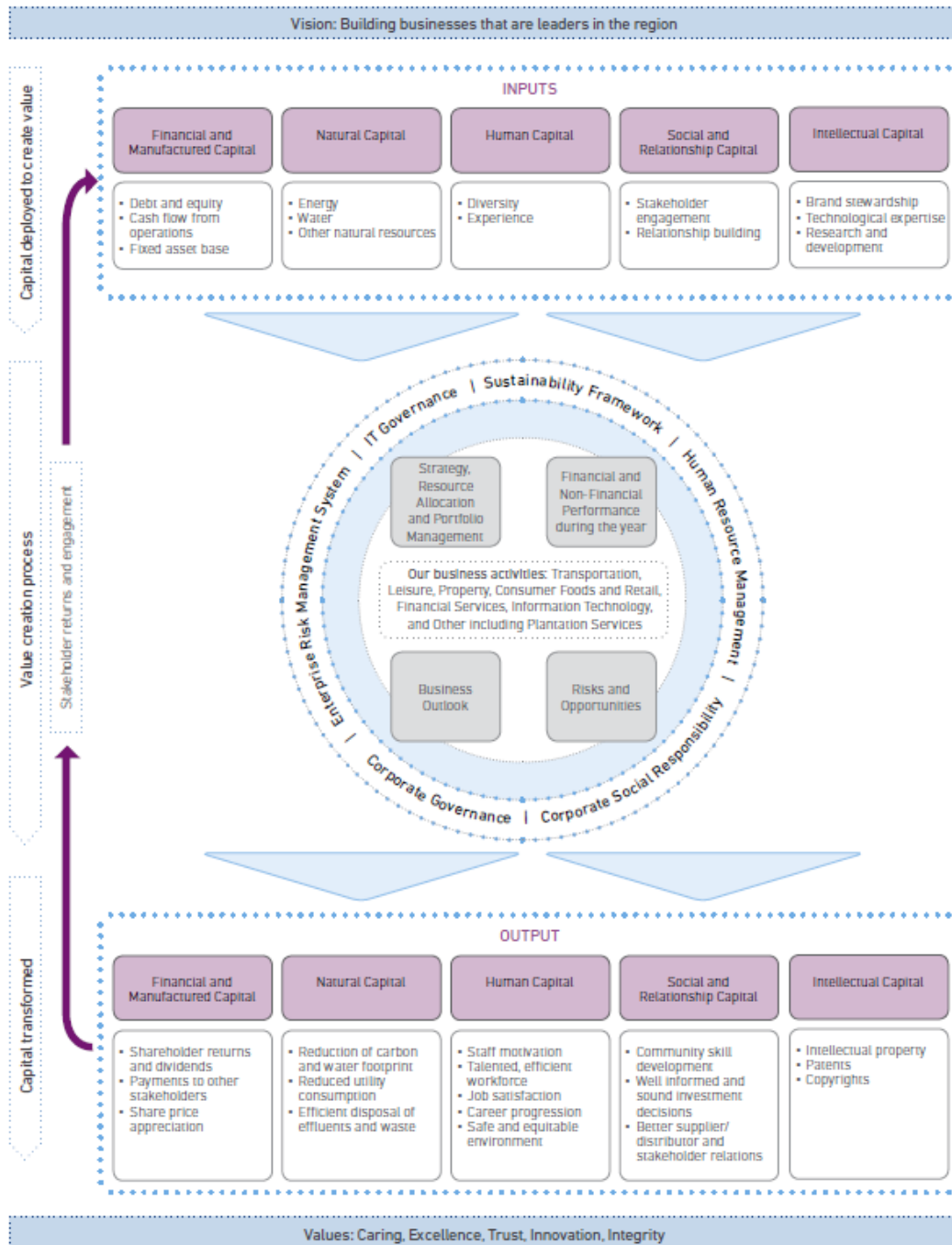


Figure 10.39: BM illustration of DH2 (Source: DH2 AR, 2016, p.6)

Similar to the present findings, information related to their business models were either minimal or non-existent in Liu et al. (2018).

### 10.3.8 CE 5 - Strategy and resource allocation (41.4%)

Findings further revealed that the reasons for such lower disclosures (41%) in the CE5 ‘strategy and resource allocation’ are because of the non-disclosure of item 5.5 which addresses whether organisation's strategy is linked to value creation model/business model over the four years from 2010 to 2013. Confirming this, IIRC (2013d) found that 77 % of the FTSE 350 mentions BM in their ARs, but only 8 % integrate BM reporting with strategy and business risks. However, IR requires the disclosure of a company’s strategy and BM to provide investors with relevant information (de Villiers et al. 2014; Sukhari & de Villiers, 2018).

The importance of linking an organisation's strategy to risk and opportunities was expressed as follows:

*Any strategy is finally look for value created. So risks are things that make this strategy not work. Strategy execution may not work due to the risks. Things that are needed to execute strategy may not available. So that risk has to be there (MT1-1-CFO).*

*Why that framework asked strategy is to be disclosed. Again those who are not disclosed that strategy and when they come to evaluation and based on the marking scheme they are not given marks. Previously guiding principles also they say material information may be material up to some extent to the readers, the strategy, but according to the complexity of the business environment or the business industry they may reluctant to disclose their strategy there. Then those who are doing that integrated reporting raise that problem. How can we disclose or whether we need to disclose the strategy (ACASL2-Senior Lecturer).*

However, the highest reported item in CE5 was 5.1 which addresses whether an organisation provides information of a clear identification of the organisation’s short-, medium- and long-term strategic objectives. Similarly, “strategic objectives” was achieved by 45% of sample companies in Wild and van Staden (2013) as one of the highly achieved CEs and in Stent and Dowler (2015) as well. Contrary to this, the CE “strategic objectives and strategies”, which was based on IIRC, 2011, scored the least scores in Marx and Mohammadali-Haji (2014). The CE5 was one of the least reported CEs in Liu et al. (2018) too.

Lower disclosures were also found in items 5.1 (provides information of a clear identification of the organisation’s short, medium and long-term strategic objectives) and 5.3 (discloses the action plans or resource allocation plans to implement strategies) among IR adopters. Similar to this, KPMG (2017) found that by 2016, 12% of organisations disclosed specific objectives which underpin their high-level strategies to give the reader insight into how they intend to deploy their strategy.

When asked for personal ideas on disclosing of strategy in ARs, the respondents drew the following thoughts which led towards limited strategy disclosures:

*Even in our case, we don't reveal our strategies, because I don't think that we have a very secret strategies in banking. Banking industry is very old one. You can't have magical products there. So there's hardly any very innovative strategies. The way that you are doing is what matters. We can say that we intend to provide the top-quality high-class customer service. That is the strategy. But everybody says that. How do you do it is the question. It is in the document, but when you go to a branch, it's not there. You have complaints always. That is the difference. You cannot have it in strategy, but how do you implement it (SB1-1-DGM Finance & Planning).*

*There are certain concerns. Since you are in a very competitive market sometimes, revealing some of this information will have certain impact (B3-1-CFO).*

*The real strategies we don't published. We just publish something to show to makeup the annual report (B1-2- Chief Manager Finance).*

*I don't think even the shareholders want to reveal our strategies as what we are going to do in next year and so on. I'm also in the view that we shouldn't discuss too much on that part in my personnel view (IN1-1-CFO).*

*Strategy, of course, is something confidential. So always we have been very cautious on reporting the strategy (HC1-1- Head of Finance and Corporate Planning).*

*You should know the line up to what extent we are going to reveal the strategy. And maybe like for an example, say now we are opening a branch in Seashells. So we have disclosed this in annual reports, very close to the opening of the branch. It was a strategy for last 2 years, but we disclose it 2017. We disclose it very close to open the branch. So you should know the line and you should not cross the line to disclose strategy. But, to certain extent, yes, we have to disclose. If we disclose everything, we will be in trouble (HC2-1-CFO).*

*Certain strategies of course we can publish, certain strategies are very sensitive, we have an issue in that (HT2-1-Director Finance).*

*When it is in the public document to all then the other competitors may get our business strategy. That problem is there. There is no secret then. Others will copy our strategy, then again problem (ACASL2-Senior Lecturer).*

IR information affect internal decision making by providing decision makers with a more comprehensive picture of the impact of the firm's strategy (Esch, Schnellbacher, & Wald, 2019). MT1 is one of the companies which has disclosed their strategy in their ARs particularly after 2014 (see Figure 10.14). Despite the above ideas, CFO of MT1 brought a different perception as follows:

*Competitive strategies nobody will disclose. In our integrated report, we don't tell how we compete in our Mercedes Benz market or in TATA. So, people have not understood the organisation. They are focused within a small area. And that is why it happens. Otherwise, we will never talk about how we are going to compete in our markets. That we do not say. It is not necessary to reveal. We should know our limits. Coca-Cola*

*strategy everyone knows. Will Coca-Cola ever say that, ok, this is how we are planning to compete in India. Definitely not. But if you look at their annual report, probably they might have some statements to show their philosophy (MT1-1).*

## 10.4 Analysis of multi-capitals

Figure 10.40 provides an analysis of how 34 IR-adopting Sri Lankan listed companies disclosed the multi-capitals concept over the seven-year period of the study.

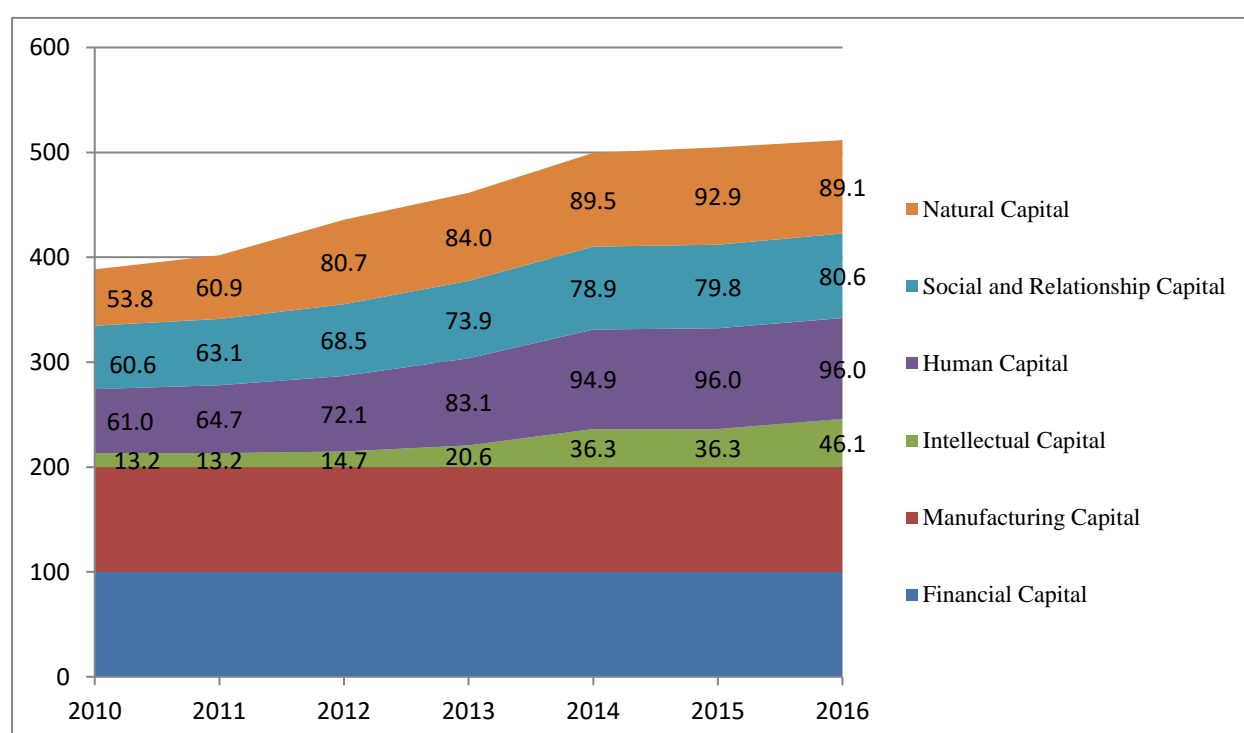


Figure 10.40: Capital disclosure of IR adopters (Source: Author)

The total number of individual disclosure items (as in disclosure index in Appendix 6G) to represent the six capitals was 40. Composition includes intellectual capital (6 items), human capital (8 items), social and relationship capital (17 items), natural capital (7 items) and 1 item each representing financial and manufactured capital.

As shown above, financial capital (confirming Liu et al., 2018) and manufactured capital were reported evenly throughout the period from 2010 to 2016. Out of the six forms of capital recognised in the IR framework, the first two capitals, namely, financial capital and manufactured capital, maintain a financial focus in business operations, while the latter four capitals, namely, human capital, intellectual capital, social and relationship capital and natural

capital, have a non-financial focus. A business enterprise needs to maintain a balance between relationships with the former two capitals and the latter four capitals (Abeyasinghe, 2018).

Except for manufactured capital and financial capital (which are mandatory to report), individual items relating to three other capitals (including human capital, social and relationship capital and natural capital) showed an upward trend from 2011 till 2014 and thereafter a fairly steady improvement was shown in 2015 and 2016. A lower level of disclosures was only found in intellectual capital (13.2% in 2010 and 46% in 2016), but disclosure grew after 2013. Information on intellectual property, such as patents, copyrights and licenses, was only found after 2014. Similar findings were revealed in Wild and van Staden (2013) where they stated that intellectual capital was not well addressed.

Further, the present study findings corroborate Setia et al. (2015) (human, intellectual capital, social and relationship and natural capitals) and Haji and Anifowose (2017) (intellectual and human capital) in terms of the overall amount of increase in the corporate disclosures. However, Haji and Anifowose (2017) showed a decreasing trend in contrast to the present findings and those of Setia et al. (2015). Further, overall disclosures of intellectual, social and relational and natural capital information were significantly less across the sample companies in Liu et al. (2018).

This section further analyses the multi-capitals concept, taking MT1 as the example. Table 10.14 shows how MT1 identified its capitals from 2010 to 2016.

Over the period from 2011 to 2013, though the focal point of capital reporting was on the financial capital and financial value creation, MT1 also reported on the dynamic interaction of the six forms of their so-called non-financial/intellectual capital, that creates sustainable value in MT1, namely, customer capital, employee capital, business partner capital, institutional integrity capital, community capital and environmental capital (Figure 10.41). Each of these capital disclosures were addressed under the “management report” section of the annual reports across 2011 to 2013.

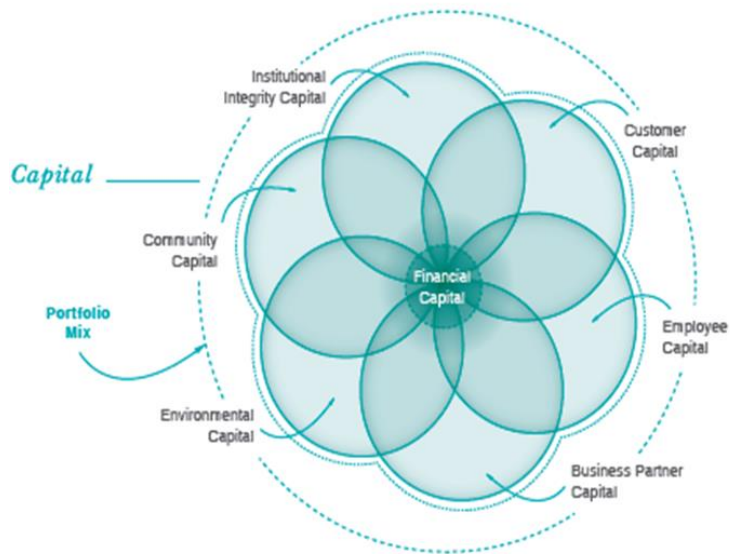
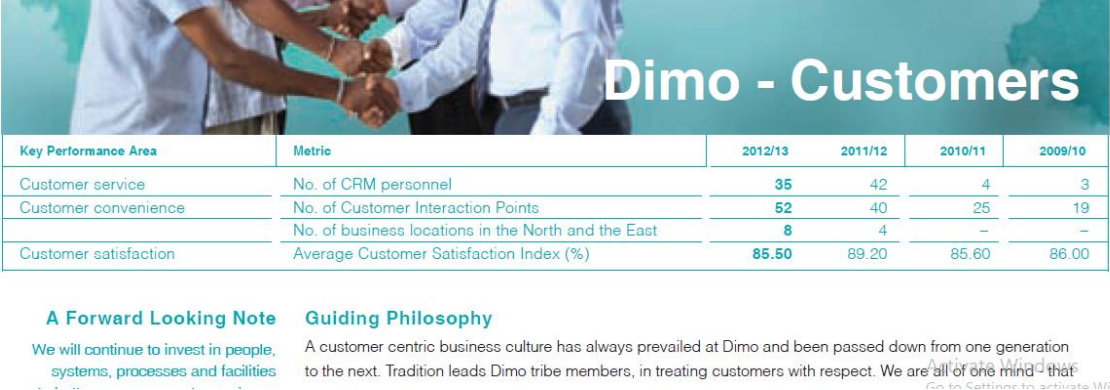


Figure 10.41: Early capital disclosures (Source: MT1 ARs, 2011, p.4; 2012, p.3; 2013, p.26)

For example, in the annual report of 2012, MT1 reported on customer capital (reporting on the section delivering value to customers and the deriving value to the company) in pages 41-61, employee capital (reporting on how MT1 produce sustainable and rewarding outcomes for the people within MT1) in pages 62-79, business partner capital (reporting on the symbiotic relationship between principals of the brands, local and foreign suppliers, distributors and agents) in pages 80-87, institutional integrity capital (reporting on the compliance with regulatory and statutory requirements of all applicable regulatory authorities, and adoption of the best practices) in pages 88-89, community capital (reporting on how MT1 engaged in developing the social and physical infrastructure, supporting technical and vocational education, enhancing the quality of life of the local community and corporate conduct) in pages 90-99 and environmental capital (reporting on MT1's integrated approach towards six strategic areas in building environmental capital; management of atmospheric emissions and climate change, energy and fuel management, water management, waste management, materials management and noise management) in pages 100-111.

Although the reporting parameters on capital disclosures were the same over the period 2011 to 2013, particularly in the 2013 annual report, which published with the lowest number of pages (out of the annual reports from 2010 to 2016), MT1 was able to address the same capital reporting parameters in a tabulated and a graphical layout. Thereby, financial capital and other six forms of non-financial capital were depicted with a table including a year-wise presentation

of the key performance area (KPA) with its relevant metric, a graphic to show how they build each capital. For example, in 2013 AR, in customer capital disclosure (p. 28-33), MT1 provided the KPA table in page 28 (Figure 10.42), the graphic which shows how MT1 builds the customer capital in order to deliver value to customers and deriving the value from customers, in page 29. Since 2013, MT1 has continued to use this tabular and graphical template in their disclosure of capitals.



| Key Performance Area  | Metric  | 2012/13 | 2011/12 | 2010/11 | 2009/10 |
|-----------------------|---|---------|---------|---------|---------|
| Customer service      | No. of CRM personnel                                | 35      | 42      | 4       | 3       |
| Customer convenience  | No. of Customer Interaction Points                  | 52      | 40      | 25      | 19      |
|                       | No. of business locations in the North and the East | 8       | 4       | –       | –       |
| Customer satisfaction | Average Customer Satisfaction Index (%)             | 85.50   | 89.20   | 85.60   | 86.00   |

**A Forward Looking Note**  
We will continue to invest in people, systems, processes and facilities

**Guiding Philosophy**  
A customer centric business culture has always prevailed at Dimo and been passed down from one generation to the next. Tradition leads Dimo tribe members, in treating customers with respect. We are all of one mind – that

Figure 10.42: KPAs of capitals (Source: MT1 AR 2013. p.28)

In 2014, capital disclosures were addressed in a dedicated section called “value creation report” of the 2014 annual report (p.32-77) offering a detailed analysis of how MT1 used their capitals to create efficient, rising and lasting value for all their stakeholders. While incorporating the IR framework, the 2014 annual report initiated few substantial disclosure practices, particularly in relation to the three types of capitals: namely, monetised capital, intellectual capital and stakeholder capital. One such change that they brought into their capital disclosure practices was the recognition of the “monetised capital”. Since 2014, MT1 used the term “monetised capital” till 2016 (p.37-40) annual report. For example, the 2014 report of MT1 presented a clear description for such as:

Monetised capital consists of financial capital and manufactured capital. Financial capital is the pool of funds available for DIMO to create value. Manufactured capital is made up of manufactured physical objects available to DIMO to carry out its value creating activities, represented by property, plant and equipment (p.39).

In 2014, incorporation of the IIRC (2013b) brought MT1 into the reporting of “intellectual capital” (p.58-59) through the multiple synergies of their value creation process. MT1 built a store of intellectual capital which manifests in three intangible assets: organisational knowledge base (expertise), process capital (systems and processes) and brand reputation



(MT1 AR 2016, p.52). Prior to 2014, MT1's intangibles were reported in notes to the financial accounts, and the term "intellectual capital" was used to refer the non-financial capitals (customers, business partners, employees, society and environment) in broader terms. "Stakeholder capital" is another capital disclosure that MT1 initiated in its 2014 annual report, which includes the reporting on customers, business partners, employees, society and environment (AR 2014, p. 48-57 and p.60-65).

Being an early adopter of IR and an early follower IIRC (2013b), MT1, in 2015, rationalised their capital structure into four main capitals, namely monetised capital, relationship capital (which report on customers and business partners), human capital and intellectual capital, and continued to follow this until the 2016 report, and it is presented in a dedicated section called "Capitals Report" during 2015 to 2016. From 2015, MT1 adopted the IIRC (2013b) definition as "human capital" (p.78-82) to address the "employees" (MTI AR 2014) or "employee capital" (MT1 ARs, 2011-2013). The disclosure of all renewable and non-renewable environmental resources and processes (IIRC, 2013b, p.12) were disclosed as "Environmental impact" in the separate section of "Impact management report" in 2015 (p.61-66), and in 2016 (p.65-71). Yet, MT1 did not report on "Natural capital" in accordance with IIRC (2013b).

However, it was interesting to note that MT1 did not adopt the IIRC (2013b) definition of six capitals (namely, financial, manufacturing, human, intellectual, social and relationship and natural). Although MT1 adopted IR, the international IR framework does not require an integrated report to adopt the framework categorisation or to be structured along the lines of the capitals, rather one of the primary reasons for including the capitals in this framework is to serve as a guideline for ensuring organisations consider all the forms of capital they use or affect (IIRC, 2013b, p.12, section 2.17). CFO of MT1 voiced the following for their non-adoption of IIRC capital classification:

*We thought of all six capitals, we feel that that's a reasonable classification of further capital and giving information is ok. But nobody has to or for that matter no one has to take it as it is. In IR guidelines, they have very specific things quoted. It's not necessary to quote IR guideline (MT1-I).*

IIRC (2013b) further claims that not all capitals are equally relevant or applicable to all organisations (p.12, section 2.16) and organisations may categorise the capitals differently (p.12, section 2.18). The "Social and relationship capital", which is defined as the institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being

(IIRC, 2013b), was addressed by MT1 as “Relationship capital” from 2015 onwards. The social element, rather the social impact which is defined under social and relationship capital (IIRC, 2013b), is reported as the “Social impact” in the separate section of “Impact management report” (from 2015 onwards).

Supporting the above view of MT1-1, some other interview respondents also affirmed that it is not necessary to adopt IIRC capital formation:

*Then I guess like even in IR itself they say if the relevant capital does not or if you can't really relate to it can be forgone right (PAB2-1- Senior Specialist, Technical Policy and Engagement).*

*We are not going to narrow down into these six separate capitals. We are a service-based organisation, so lot of things depends on the customer. That's the main reason why we highlighted customer first as our capital (CN1-2-Financial Accountant).*

*The capital structure we followed in 2016, but not restricting to 6 capitals. We thought of in Sri Lankan industry point of view, we need to concentrate more into our regulatory environment. So we introduced a regulatory capital separately, because there are so many legal obligations and licensing issues are on-going. Therefore, we need to, through the reporting we had to highlight the particular capital as one of our key (TLC1-5- Senior Assistant Manager Corporate Communications).*

Challenges pertaining to capital formation and definitions are discussed in detail in Chapter 11.

Table 10.14: MT1's reporting of multi-capitals over the seven-years

| <b>2010</b>         | <b>2011</b>                        | <b>2012</b>                        | <b>2013</b>                        | <b>2014</b>          | <b>2015</b>          | <b>2016</b>          |
|---------------------|------------------------------------|------------------------------------|------------------------------------|----------------------|----------------------|----------------------|
| Financial Resources | Financial Capital                  | Financial Capital                  | Financial Capital                  | Monetised capital    | Monetised capital    | Monetised capital    |
|                     |                                    |                                    |                                    |                      |                      |                      |
|                     | Intellectual/Non-Financial Capital | Intellectual/Non-Financial Capital | Intellectual/Non-Financial Capital | Stakeholder Capital  | Relationship Capital | Relationship Capital |
|                     | -Customer capital                  | - Customer capital                 | -Customer capital                  | -Customer            | -Customers           | -Customers           |
|                     | -Business Partner capital          | -Business Partner capital          | -Business Partner capital          | -Business Partners   | -Business Partners   | -Business Partners   |
| Human Resources     | -Employee capital                  | -Employee capital                  | -Employee capital                  | -Employees           | Human Capital        | Human Capital        |
|                     | -Community capital                 | -Community capital                 | -Community capital                 | -Society             | Social Impact        | Social Impact        |
|                     | -Institutional Integrity capital   | -Institutional Integrity capital   | -Institutional Integrity capital   | Intellectual Capital | Intellectual Capital | Intellectual Capital |
| Natural Resources   | -Environmental capital             | -Environmental capital             | -Environmental capital             | -Environment         | Environmental Impact | Environmental Impact |

## 10.5 Chapter summary

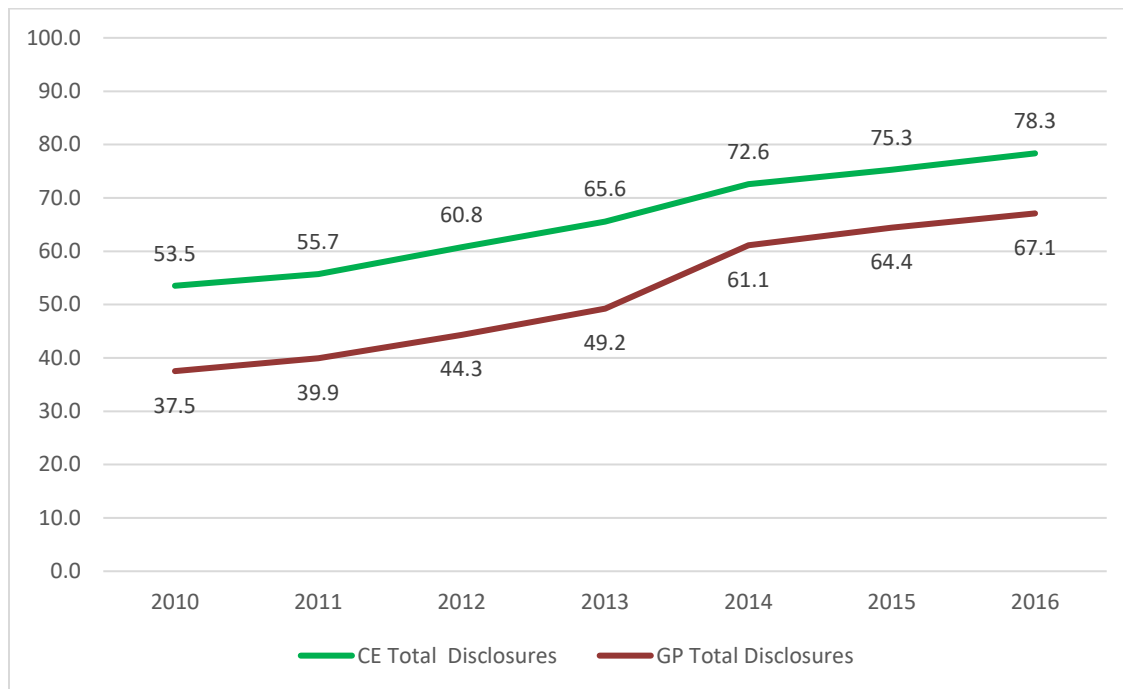


Figure 10.43: Summary of the GPs and CEs disclosure from 2010 to 2016 (Source: Author)

The aim of this chapter was to present evidence about current IR practices, exploring how Sri Lankan listed companies have disclosed the guiding principles and content elements of IR. Figure 10.43 provides a snapshot of the progress made by the Sri Lankan listed companies from 2010 to 2016, in terms of the level of adoption of IR disclosures in relation to seven GPs and eight CEs. The moderate disclosure indicates that many of the organisations progressed throughout the seven years and are not far away from preparing their corporate reports based on IR. Indeed, it is notable that some companies appear to be starting to apply some of the GP items and CE items in the disclosure index together with the incorporation of IR framework, thus leading many organisations to focus more and report expansively on the guiding principles, content elements and multiple capitals in their process of creating sustainable value in the short, medium and long term, while starting down the path towards IR.

## Chapter 11

### Challenges and Issues of IR

#### 11.1 Chapter introduction

As this study was informative about current IR practices in the previous chapter, it also identifies challenges, issues and difficulties in relation to several aspects of IR. These challenges are discussed in the following sections along with various possible responses or solutions.

Section 11.2 describes challenges relating to the implementation of IR. Section 11.3 discusses issues and difficulties in preparing the integrated report. Criticisms, challenges and issues related to the IR framework are presented in section 11.4 under six sub-sections. Issues related to the three fundamental concepts of IR, namely, value creation, capital and business model are presented in section 11.5. Challenges in the value relevancy of IR are provided in section 11.6. Section 11.7 discusses conciseness as a challenge in IR in detail. Assurance of IR is considered as a challenge in section 11.8. A chapter summary is provided in section 11.9.

#### 11.2 Challenges and issues in IR implementation

The challenges and implications of IR have been identified as a less known area in IR by Haji and Hossain (2016). The present research identified five challenges in implementing IR in selected organisations in Sri Lanka, namely, lack of understanding on IR, lack of top management support, employee resistance, lack of skills in staff, time consumption, heavy workload and cost.

##### 11.2.1 Lack of understanding on IR

In the present study, how study respondents have realised the concept of IR has been discussed in detail in Chapter 9. However, the study also provides evidence that understanding the IR concept has been a barrier for them. It was surprising that four respondents pointed out that even the members in the national professional accounting body do not understand what IR is:

*See how many members in the institute [PAO1] know about sustainability. They [PAO1] don't know. Even the IR principles, most of them don't know I think 10-15 people of whole members may know about sustainability reporting (B1-1).*

*We knew nothing about the IR when this was first introduced, but even they [PAO1] were not aware (SBI-1).*

*99% of the Sri Lankan chartered accountants may not understand what this is (DH3-3).*

*Nobody knows, may be very few Chartered Accountants, they don't know about this subject (HT2-1).*

The interviewee from a professional accounting body added another viewpoint to this discussion stating that people in the finance section understand the IR concept better.

*At least people in the finance function understand. I would not say to a larger extent, to a certain extent (PAB2-1).*

A similar thought was shared by the respondent at the state bank:

*People who have served in the finance area and who involved in the reporting process, might know about IR (SBI-1).*

Respondents in McNally et al.'s (2017) confirmed that the finance staff are typically seen as the primary reporting teams in IR.

The following interview quotations illustrate how different IR actors (PABs, ARPCs, ARW and auditors) expressed their views when asked for their knowledge on this IR concept.

One of the PAB participants stated that annual report preparers have a better understanding:

*Preparers I guess to an extent they understand (PAB2-1).*

Conversely, one of the ARPC participants shared a different idea to the above:

*My knowledge on IR is very limited (ARPC3-1).*

ARPCs articulated that not just the ARPC or the writer to need know what IR is, but their clients (IR practicing companies) also need to have a better knowledge on what IR is.

*It's not just the annual report company who should know, the client also needs to know more. The biggest problem we face is the fact that, now for us they [clients] don't understand IR fully. They [clients] know that is happening. They [clients] know IR report on capitals and all that, but they [clients] just know bits and pieces, no one has a rock-solid idea about how IR works and what IR is (ARPC3-1).*

*If we have 100 clients out of whom say 50 want to do integrated reports, I would say 10 of them will have one idea, another 10 of them have different idea about what it is, some people still think it's still a corporate social responsibility report as it was (ARPC2-1).*

Auditor's perspective on the lack of awareness of IR was:

*Because they [companies] are depending on the auditor and the writer. If the writer says that ok you should write these these things, they will agree. Then when we start saying that ok your write-ups should be like this and then again, they go back to the writer and say ok our auditor says you have to add now. If the writer says no auditor is wrong we have to do this way, they again come back us to and say writer says no we can't do it anyway. All is because they [companies] don't have a good knowledge in the field (AUI-1).*

Adding a different perception as to how companies can be aware, a few participants brought out the fact that obtaining knowledge on this IR is easy due to the availability of free information on the web:

*Knowledge is hard to come by, but the wonderful thing for us is our knowledge has been free. Totally on the internet. So much of it's free (ARW1-1).*

*We searched the web for IR information (PL1-1).*

*IR reading materials available in the web (ACASL2).*

*I searched google and got IR information (PL3-1).*

*From the internet, I read about IR (B1-1)*

Yet, a respondent from a bank (B1, one of early adopters) took a different stance replying that:

*We don't like to read and get understand IR (B1-2).*

Despite all the above ideas, the IR practitioners' perspectives evidenced that the lack of understanding of the IR concept has been a barrier for the top managers as well as the middle managers of the selected organisations. The lack of understanding by preparers has also been identified as a significant barrier to the acceptance and use of IR by Stubbs et al. (2014). Five top managers of the present study uttered that:

*First challenge is the lack of knowledge, because some people are not aware of this IR (CN1-1).*

*We don't have an in depth understanding of what this is. We are also doing at the surface level (HT1-1).*

*First challenge was awareness. We have around 42 executives in [HT2]. Out of 42 I think 15 HODs [Head of Department] and out of that only two HODs know what IR is (HT2-1).*

*The difficult part was understanding the concept (IN1-1).*

*Even now, we don't think that we have the full understanding of integrated reporting (SB1-1).*

*I think there is knowledge gap, we don't know whether we are doing the right thing or whether we are leaving out certain things (TLC1-1).*

*By the name of integrated reporting we do something. But it is not the true integrated report (B1-1).*

Three participants who represented the middle-management shared something different as follows:

*I believe top management has a little bit of knowledge on it, they don't really understand plus the below management who are non-financial guys don't understand anything at all (DH3-3).*

*IR is useful, but the top management has not understood the importance of IR (B1-2).*

*If you can ask from the top level why we are doing integrated reporting, what is the integrated reporting, they don't know about it (PW1-2).*

According to the above middle managers' viewpoints, top management has not grasped the IR knowledge well.

In contrast to above, three top managers' perceptions were somewhat different:

*The only problem is now, to the middle level and the lower level employees have a lot of work. So they might think this IR as another burden on them. So we have to manage it in the proper way. But then they'll get used to it (TLC1-1).*

*I would say 40% of our bank executive management are the AGMs [Area General Managers] and they are aware of the value and understanding of this IR. 10% of the next level, chief manager level also understands... People who are in the real battlefield, they don't bother to understand all these things. Simply if you ask one of our branch managers, maybe a super grade branch manager, what do you mean by the IR he may not know. 99% may not know (SB1-1).*

*First awareness was a challenge. I didn't get any corporation, I did not get any support, because this was something new (HT2-1).*

Three other top management viewpoints seemed to be defending the above ideas by providing justifications as:

*We do not put much time on this as against our operational activities (HT1-1).*

*If you say rainforest alliance for an example, rainforest alliance is like our bread and butter. The rainforest alliance is across our industry. We know at least the requirements, what are the principles and compliance with laws, and we know it by heart. But annual*



*report is done by handful of people, so we have kind of a pressure, and that may be one of the reasons that all of us are not very thorough on IR (PL1&2-1).*

*We are always communicating these are the benefits from the integrated reporting, so then to some extent, we try to minimize their lack of knowledge (CN1-2).*

Another interesting finding of the study is that while some managers are ready to accept the challenge of lack of understanding of IR among them and of their employees, a few were trying to pass the buck when they failed to answer when the interviewee asked whether he/she knows IR. However, it was noted that these participants were holding the top and senior positions, such as chief accountant, former group CFO, general manager finance and managing director in their respective companies.

*I have no specific idea about the concept. I can strongly recommend HT1-1 as the most qualified person. I will give his number and he is the best person to contact in this IR concept (HT1-2).*

*If you ask me the technical things on IR, I'm not the best person to explain (DH3-4).*

*If I speak honestly, I have no idea about the subject. I have not touched on accounting or reporting aspect. So it is better to interview TLC1-4 as he is having the whole idea of this report. I even do not know that we are doing as IR. And I did not know how it happened at TLC1. I have not read any annual report of TLC1 so far for my 20 years of service (TLC1-3).*

*I used to do annual report when I was in long range planning unit. Right now, my role is, I do the Chairman's statement and my contribution is very limited. Financial reports are not my responsibility, it is done by the unit called corporate affairs. I think DH1-3 is the best person to contact in relating to IR (DH1-2).*

*For any specialised areas we have PL1-1, who usually handles the annual reporting. I kept him standby because he knows more of the technical things and fill up the gaps more than I do (PL1&2-1).*

These ideas indicate that the above personnel being key decision makers are not really aware of the salient points of IR and are not part of the IR process, although they hold key positions relating to accounting, finance and operations in their respective organisations.

However, emphasising the importance of top management being responsible and supportive for building a learning and supportive culture within the organisation, one of the top managers in a bank articulated a different opinion to the above:

*If we cannot get the culture, people sitting in the top could say that people who are in down the line would not make it, because, you do have that culture. So creating that culture is the responsibility of the top management (B3-1).*

Hence, the lack of knowledge on IR among different IR actors could be the reason for the different interpretations for what IR is for them as identified in Chapter 9, where the respondents perceived IR differently.

### **11.2.2 Lack of support from top management**

The top management support towards IR is discussed in Chapter 8 as an internal driving force of IR in Sri Lanka. Conversely, the absence of senior management support was shown as a barrier to IR in Solstice (2005). Corresponding findings for such lack of top management support were also found in the present study.

*From many top people I didn't get any direct support, but they were so demanding, from the day one they were expected to perform... it was bit difficult initially. So decision making and review process is more structured more stringent and audit committee and board of director meetings are no jokes you have to provide 100% accurate information. So we are under tremendous stress and pressure to make sure that we provide accurate information...Even in our internal meetings you can't go unprepared, you get hammered, you have to go with facts and figures...That's another stressful thing, full of stress and we go fish out of the water, you have to be fully prepared (PL3-1).*

*Up to now I have not told the board that look we have won this or that five years. We have not. Every quarter there are so many awards and we have not even bother to tell the board and boards even not bother to even congratulate us (PL1&2-1).*

*They [top management] were not supportive earlier, those days they were not even aware of this (SB1-1).*

These three opinions demonstrate the lack of awareness of IR, lack of appreciation towards IR, and rigid behaviour of the top management towards IR as the main reasons for lack of support from top management.

One of the ARPC's stances in this regard was that having no proper idea on IR in turn would lead to the lack of support from top management. Two participants voiced that ARPC 2 was similar in this regard:

*What happens is there is no guide or understating at the top and every report because this is the board of directors' report at the end of the day. After doing everything, the final cut goes to the board. And they are like, are you mad to put this and we cut it, cut it and send it back. There are reports where people have really done a good report in*

*the first cut and then put in the places where they had the drawback. This is where failed, this is why, this is how we are planning to address in the next year and end to the board. Then the boards would say, you cannot report this, cut it (ARPC2-1).*

*You can see, in a company where the CEO and Chairman and the board and all are very well involved, it make a difference in how they are reporting (ARPC2-2).*

The participant B1-1, from an early IR-adopting bank stressed the point that the reason for their silence on IR is the lack of support of their top management toward IR.

*Actually, the problem is, this IR is not accepted by the top management. If they say this is required, then we have to do it anyway. Then we have to learn, we have to get the training and reading. Now it is not important and therefore we keep away and keep silent (B1-2).*

#### **11.2.2.1 Ceasing IR by the IR adopters**

In a similar line to the above interviewee quotation, another significant insight noticed during the analysis is that a few companies have failed to continue with the IR practice, though they have been identified as IR adopters based on the sample analysis of the present study. Some started doing IR and then they have inconsistently followed the trend line. For example, in the first two years, they produced the report and in the third year they did not.

From an ARPC point of view, reasons to abandon IR would be:

*What are the ones that blocking you all from doing this? What are the reasons? so it can be personal reasons, it can be company structures, it can be out of the management, and it can be a board decision, there are so many things (ARPC2-1).*

During the analysis, the study discovered two such scenarios with desisted IR reporting: one in the banking sector, and the other one is in chemical and pharmaceuticals sector. And it was also noted that lack of support from their top management was the reason for them to abstain from IR. Two such companies were discovered with desisted IR reporting.

**First scenario's** interesting findings which relates with B1, links with the first case (banking sector) discussed relating to the individual motives of IR in section 8.3.1. It was revealed that top management has been obstructive towards IR. Though the participant (B1-1) seems the initiator and leading IR in the early stage, the reason to give up the leading role in IR was voiced as follows and it was due to the lack of support from top management. B1 ceased reporting on IR in 2013 and 2014.

*I had many challengers from the management. When it comes to IR the direction and interest should come from the top. If the top guys are not keen or interested, then it is difficult. They are not worrying about. They see this as unwanted information. I had to face that challenge. I gave it up actually (B1-1).*

*Everything depends on the top management and the big peoples' mission and thinking. If they are not thinking about and if they say all these are unwanted information and non-financial information are not that much important or not helpful to the profitability of the bank, then it is a problem. They are only keen only on the bottom line, the financials, not other bottom-lines. See what will happen in long run, yes they try to maximise the profit in the short run, but long run we can't sustain (B1-1).*

The above view confirms the idea that if top management has a short-term view in terms of profit or performance, then other people in the organisation will be driven by that agenda. Further, when asked whether this is because the top management has failed to act and think in an integrated way, the above participant confirmed that giving his opinion as:

*Yes, that is thing, that's why we can't sustain. That's why SR doesn't sustain. If I leave, nobody takes care of that. Sustainability principals we have to integrated and relate to the day to day operations. That's a big challenge. A challenge in the sense they don't understand the concept (B1-1).*

Another employee who was contacted from the same organisation also corroborates what was mentioned above.

*Unfortunately, I couldn't learn more and more on IR. After the initial annual report, the management didn't interested in reporting. It was not useless actually, but we didn't encourage to read more (B1-2).*

*Actually, the main difficulty is coming from the CEO. All others even my boss and myself and the nine members in the corporate management, we can work with them. We can lead them, especially in annual reporting and any other reporting like that, but if the CEO resist supporting us, and then we have to keep silent. Actually we were interested in learning further on IR, but that was not happening last period (B1-2).*

He further elaborated that the failure to continue with IR in their organisation during 2013 and 2014 was directly because of the change in their CEO and lack of awareness and understanding of IR concept.

*Management was changed 2011 and thereafter the appointed management was not interested in integrated reporting. Majorly I believe that they didn't know the value of the concept...They have short objectives. As corporate members we have long term objectives. First year second year they will leave, but we have to stay here for a long time (B1-2).*

From further analysis of the findings, it was found that there were a few main reasons for such lack of support from the top management towards implementing and continuing with the decision to adopt IR. Those are the change in the top management, lack of awareness of IR, lack of appreciation, lack of focus on right talent, and rigid behaviour of top management.

As in the above scenario in B1, in which the participant B1-1 articulated relating to the lack of awareness among top people on IR, the second respondent confirms that by sharing the following owing to the findings in the change in the top management and lack of focus on right talent:

*In recent past our CEO not that much exposure to the banking industry, actually he didn't understand what is banking. That severely affected to the bank also, in the recent past. Now he has left the office and new one will come soon. We don't know what type of person will come. If the CEO is an overall sound person then definitely he'll encourage us to do these IR and other things also (B1-2).*

*Other problem is not focusing on the real talent. If the capital is the responsibility of the CFO, then it should be given to CFO, if someone else does that, then it creates other troubles. They have given up and wait and see...If I assign you to do something, you'll do it better. If you are the right person to do something and if I assign that job to any other person then what you do. Keep silent and let him do and most of the time you don't support. That is the human behaviour (B1-2).*

Supporting the above views, the present study endorses the results of previous studies (Gunaratne & Senaratne, 2017) which identified the lack of top management support as a major restricting factor in the organisations which move towards IR.

In terms of the **second scenario** which is in the chemical and pharmaceuticals sector, denoted as CP1, although the interviewer asked when and why adopt IR and even when asked why they stopped preparing INRs after 2016, the interviewee was ambiguous in his answers and reluctant to provide a clear answer. He kept on saying he needs board approval for him to declare such information. Further, he requested to avoid recording the interview discussion too. As an alternative, the study contacted their annual report writer for the reason for them to stop producing INRs. According to the view of the ARW:

*I have also done CP1, but didn't do this year [2017]...I don't know whether someone else is writing the report for them...We had one organisation like that whereas the previous CEO was very in to it and he changed the company and then the whole engagement process fell down...It's depending on the CEO's motive....The CFO also changed (ARW1-1).*

*Whereas, in a company like CP1, the situation is little different. The management is, I think lot of management time is taken for them to come out of this thing. So slightly different issues...I think they had a big issue last year. I think it's an administrative issue. They approached us this year. So when they are ready, I think they'll do (ARW1-1).*

It was also identified that one of the respondents in another sector also provided his views taking CP1 as an example as follows:

*In CP1 also they had a full team. I had a friend of mine in CP1. They start to prepare their annual report before 9 months prior to the competition...My friend at CP1 migrated. May be CP1 have ceased IR, due to huge cost (TLC1-3).*

Noticeably, two participants from two plantation companies shared their views relating to their competitors' non-adoption of IR as follows:

*There are about 5 or 6 six plantation companies who follow the IR frameworks in plantation sector, they really do it...Why others are not going for the IR, because they don't have anything to report, because they are financially struggling. When you are financially struggling, you can't afford to engage into other areas... That is the thing. Even in a personal case, if you don't survive on your own, you can't help others...they can't think of doing any IR or even a better annual report. Look at their annual report, they are just satisfying the minimum requirement. That's the thing (PL3-1).*

*If you look at DH2, they were really coming up and then their team left, their whole team left, you can see them disappearing from the planet (PL1-1).*

### **11.2.3 Employee resistance**

As discovered by this study, the lack of awareness of the IR concept could be the reason for another challenge voiced among the participants, that is the resistance to change towards the new reporting concept. The top and middle management perspectives on the level of understanding about IR was discussed previously. Employees become hesitant as they do not understand the value of IR since they are not fully aware of IR. Some of the management responses were that:

*[HT2] staff was first clueless when I say integrated reporting, this was a new thing, no corporation at all. Still they [employees] think IR is a big thing and we cannot do and so on and they have that kind of attitude (HT2-1).*

*If people are reluctant, maybe they do not see value in it. We need to educate them (B3-1).*

*When you sell a concept, that's a challenging topic, you have to convince each and every people about the benefit out of that, how you think and get out of your silos and look at an integrated way to report as well as thinking (DH3-1).*

*To convince the people who are in this process that we need IR were a challenge, because, they don't understand. Even I did not understand it for such a long time (TLC1-5).*

However, it was also noted that despite the level of understanding of IR, some employers were reluctant to adopt IR initially because it was challenging to persuade their employees to accept this new concept. Two of the top managers and a middle manager from a company in TLC sector further stated that:

*Any new things, it's not very easy for us to incorporate (TLC1-1).*

*Our guys are still not very conversant with the system (TLC1-2).*

*Issue that we had when we deal with so many internal work groups and internal stakeholders, to inject the concept of sustainability and get the data out from their operation was the main challenge for us (TLC1-5).*

Accordingly, the following stances provide evidence for some participants' reluctance to accept this IR:

*I always insist that this IR is worthless. What I repeatedly say is this is in vain (DH1-3).*

*We are in a hell of a trouble reporting for all these aspects. I don't want any more things because this is making our lives more miserable. We have enough and more work on our desktop (DH3-3).*

As the first step to overcome the issues of lack of awareness and employee resistance, companies were bringing in the understanding about the IR concept through several mechanisms, such as educating their staff members, sending them to seminars and workshops, providing them training on IR and obtaining assistance from ARPCs and ARWs.

*We have to give formats, educate them, and communicate to them. Let them know why we are doing this. Because, the first question they ask is why we do this (DH3-3).*

*We were literally looking for materials, looking for resources, where we can understand this IR and all that. So, I sent some of my people and I by myself attended to those seminars, workshops arranged by the PAO1 and some other like, management consultancy firms and we were gathering piece by piece, as to what is this IR (SB1-1).*

*I educated them first, as this is what I want. I sent few of my members to study about the integrated reporting, how this is working, what are the parameters we have to do and so on. My team members, they were very keen to go. Because after went through the all the training and all, they thought, no, they want to do it somehow (TR1-1).*

*We rigorously put them into the training programmes on Integrated reporting conducted by CSE, PAO1, and various other institutes like ACCA(B2-1).*

*When it comes to printing and presenting this annual report, we have selected some agencies for that, from the agencies point of view also we received lot of feedback. And we have a writer also, she also gave us a lot of feedback (B2-1).*

One incident was found where the top management used their authoritarian power to manage their employee resistance towards IR when all the above methods were unsuccessful:

*We have given leaf lets, we sent them for seminars, and we had couple of guys from audit firm. He [member of AU2] went there and explained the things to them, but nothing happened...Sometimes authority. From top, MD uses force and authority. I had to do. Now [name of MD of HT2] is doing. [Name of MD of HT2]is pushing his team. We push them and get the things done. We gave them the format this is how you should do (HT2-1).*

Difficulties in how change might be successfully introduced and managed in an organisation in IR implementation is also addressed in ACCA (2016b).

#### **11.2.4 Lack of expert staff and/or a separate team for IR**

Lack of expert and new skills in integrating financial and non-financial information in IR is identified as challenge in Solstice (2005).

Notwithstanding the above challenges of IR, the idea of a respondent from an ARPC was that when the members who engaged in preparing the annual reports in companies change, it is difficult to make the new members understand this concept of IR.

*Sometimes the team changes, the annual report preparing teams, sometimes 3 or 4 people who were there in the last year, are not there this year, so it's a new team or fairly a new team. So, they need to start from the beginning. Though the company has reported IR, these guys are never dealt with IR, so these are practical issues we face every year (ARPC3-1).*

The above idea leads the discussion towards another challenge expressed by the study participants, which is the unavailability of a separate team to carry out IR in their respective organisations. Eighteen participants expressed that absence of a separate dedicated team with expert staff to engage in the process of IR as a challenge. For example:

*Our issue is while you are into day to day mandated work, you do not have separate people allocate for this particular purpose (B3-2).*

*We do not have qualified staff to do this IR or whatever, we need huge staff. So, we cannot do this (TLC1-3).*

*We manage with the other work. So we have no separate team for this (IN1-3).*



*We are doing this in addition to our day to day work (PL1-1).*

*People who engaged in preparing annual report also do have other important matter to attend (PW1-1).*

*I highlighted the importance of a separate team, the management has not established it so far (TLC1-3).*

*Some companies they have dedicated people of team working on full time for annual report preparation. For most big conglomerates in SL, they have such and their job is preparing annual reports (PW1-1).*

*We know that some company has a separate full-time teamwork for them to work on the annual report, but we don't have like this. But here, the person doing the other work has to do the reporting job also (CN1-1).*

*In most of the companies, there is separate team for annual report preparation. All throughout the year they have dedicated to reporting (TLC1-4).*

Some respondents mentioned of their competitors' names and some other company names which are considered as pioneers in IR in Sri Lanka, saying that the success of their IR process is because of that separate team.

*Like DH4, DH2 we don't have a team. They have a huge team for annual reporting (HT2-1).*

*MT1 came up all of a sudden and they upscale their writing. They have a separate team (PL1-1).*

*I know that, in B3 and CP1, there were separate teams who work on these reporting (TLC1-3).*

*When you look at DH1, DH2 or MT1 they have a dedicate team for annual reports preparation. They start well in advance, six months, seven months ago and do lot of researches (DH3-1).*

However, during the interviews it was found that some (DH1, DH2, MT1) of those companies do not have any separate teams which are working on preparation of their INRs. They voiced that:

*We don't have any team to prepare the annual report. Actually, people are in these divisions they are doing their normal work (DH2-1).*

*As far as reporting is concerned, it is done by the finance division, but lot of other people are involving, like marketing, HR, credit, corporate banking, retail, logistics, everybody is involved. You cannot run a pace if you do not have that particular integration (B3-1).*

*We don't have AR team (DH1-3).*

While the majority shared that preparing an INR has been challenging to them because they do not have a separate team for that, a participant from MT1, which was an early adopter and one of the role models of IR in Sri Lanka brought a different idea as:

*I believe understanding the company also really benefited us to do this reporting. If we had a separate team to only prepare the annual reports, then we can't achieve this (MT1-3).*

This also evidenced the non-existence of any separate team for the INR preparation at MT1.

During the interviews, only one company was found with a separate team to engage in their annual report preparation:

*We have recruited several people also we have established a unit called CSR unit and we advertised for a separate person to have this knowledge of integrated reporting and sustainability reporting and we recruited, and we established a separate unit (B2-1).*

#### **11.2.5 IR as a time-consuming and costly exercise**

Reporting deadlines has been a practical challenge when introducing new reporting dimensions (McNally et al., 2017).

Insufficient time was identified as another challenge by a few participants.

*It is very challenging, very systematic and very time consuming (HC1-1).*

*Time consuming. People take it as a burden. Then at the end of the year when you try to generate the report, you need to collate all the information, may be from A to Z. So, it is an extra burden to them (B3-1).*

*We are under a lot of time pressure (TLC1-1).*

The respondent TLC1-1 further explained that the period concerned for the financial year-end and the cut-off dates to publish annual reports and to conduct the annual general meetings (AGMs) caused them a lot of time pressure.

*Our financial year finishes on 31st of December, and then we are given two months to report everything to the stock exchange. Then, before the AGM, 21 days prior to the AGM, we have to get the comprehensive annual report done. So, we are under so much time pressure. So, we don't really have the luxury of looking into these things very specifically. So that is one of the main reasons we are faced with (TLC1-1).*

Four top managers shared that IR increased the workload of their employees:

*I would say honestly, it's a lot of work. Because not just to report, but to report, you have to have something physically, some evidence. Lot of data capturing is there. That means lot of pressure on normal operational elements in estates in record keeping, collating, reporting, so there is a stream of data coming up. So, there is a lot of work and lot of pressure on the people who are on the ground to conform to timeliness, accuracy, relevancy of information (PL1&2-1).*

*So on top of all the challenges, IR needs a lot of work in terms of the people in terms of the resources, in terms of monitoring, and so I would say it is not easy, compared to the earlier versions (HC1-1).*

*As a large group in Sri Lanka, the amount of work that has to go into IR is much more than anyone else. I mean we are consolidating so many companies and getting information around 15 sectors, 185 companies, in our consortium. Therefore, that is the challenge being a large group (DH1-1).*

*This is very hard work. With the same responsibility we are having, we'll have to process this report (HC2-1).*

The amount of the IR workload has also been a challenge to an ARPC as well:

*The amount of work load that we have to do is increasing day by day, because it's not just text anymore, there is more graphical representation and more page referencing and all that, there is lot more (ARPC3-1).*

Two IR adopters stated that preparing and publishing annual reports in two or three other languages adds more complexity to them:

*Our AR is produced in all three languages. This entire book will be translated to Sinhala and Tamil. So it's a huge task, every word is being translated. And then we have to submit our AR to the Parliament (SB1-1).*

*B2 has another difficulty also. We are the only private commercial bank publishing two annual reports in two languages. Not only the English one, we have similar sized Sinhala annual report. For every year we have to publish two annual reports (B2-1).*

Volume of information to manage within tight timelines and data gathering were addressed as challenges in IR in Solstice (2005).

A few other respondents shared that IR is a costly exercise:

*We spend a large amount of money in reporting (SB1-1).*

*It is a huge cost. Then we are limiting in to that some budget allocation into reporting and that is one of the limits (CN1-1).*

*The cost is big (B1-2).*

*It's a lot of money (HC1-1).*

*I engage AU2 to guide us to do GRI and IR and take it forward. So again, we paid additional fee for doing that full project (TR1-1)*

*Because doing an annual report cost a lot. Two three million (AU1-1).*

The interviews in the ACCA (2016b) study also suggested that IR is a potentially expensive activity because of the resources involved in setting up systems to collect new data, measuring and analysing items not included in current systems and ensuring the accuracy of this data.

Present study respondents further added that:

*Present cost of preparing the report worth around 5 million Rupees. We have to send this annual report to each and every shareholder. Last year we had to make around 1200 copies and this year, the number of copies has increased up to 3500 (DH1-3).*

*The quantity increases the cost (HT1-1).*

In a similar line, ACCA (2016b) stated that there may be cost savings in reducing the number of reports produced annually. One of the members participated in the panel session of IR workshop also highlighted the importance of finding out the alternative ways to produce annual reports:

*It's a costly exercise in Sri Lanka. I think we need to go a little beyond that and look at some new thoughts. There will be enough companies who will want to do it. We need to look at the alternatives, it is very costly otherwise (Panel session of IR workshop, participant MT1-1).*

### **11.3 Challenges and issues in preparing the integrated report**

Difficulties faced in preparing the first INR, obtaining information for INRs, and accessing and assessing the validity of non-financial information in INRs are considered as barriers under this.

#### **11.3.1 Barriers in preparing the first integrated report**

*First year, second year, third year I had lot of issues. My god, lot of difficulties (HT2-1).*

One interesting case was, one of the early adopters of IR in the banking sector who shared a different view when asked whether it was a difficulty to prepare the first integrated report moving from their traditional way of reporting up until 2010.

*No it was not a challenge for me (B1-1).*

The study also discovered that the reason for such answer was the availability of a database in that organisation. He also said that:

*I had the data base with me. Which others don't have. They don't know how to gather information. And I had the background in my reading for IR. We are working in computerised environment. So it is not a challenge (B1-1).*

The above shows that the movement of IR initiation was solely due to his personal desire and commitment which led to creating a database for financial reporting information. This case was discussed in detail in Chapter 8 under individual motives for IR (in section 8.3.1).

In a related manner, a participant who also was self-motivated towards implementing IR (this case is also discussed in section 8.3.1 in Chapter 8) shared that:

*I started studying IR and then we did the first integrated report by going through the given guidelines by the institute and the IR framework. Based on that we prepare our model and based on that model we started filling the gaps (HT2-1).*

Thus, it is noted that the IIRF was an important tool for them to prepare the first INR. It is further evident that the guideline given by the PAO1 also helped the companies to prepare their first integrated report without any difficulty. The following provides more evidence for such assistance:

*What we did was we mapped out the company according to the Institute requirement, there is a guideline (DH3-4).*

Comparably, one of the role models and an initiator of IR in the Sri Lankan context also voiced that embracing IR was not a challenge to them as they were reporting what really happens in their company. Yet, he has accepted the complications in documenting all these things together.

*When people ask me is it difficult to start integrated reporting? Definitely I say no. It is a complex thing when you trying to document. But all these are things that are happening in the organisations (MT1-1).*

The reason may be that while most of the things they practice, they do not document, as evident in the following:

*Most of the things we practice, but sometimes we don't document it (HT1-1).*

Preparing the first INR was also a challenge for the ARPCs as well:

*The problem I feel most of my clients face is, getting into the first face of IR reporting to understanding it and to implementing it for the first year or the second year (ARPC3-1).*

*For the first two years, it was hard (ARPC2-1).*

*That first step is always challenging, even for us, because we don't know what kind of bulk of work we are going to get, because they have shifted into this new reporting structure (ARPC3-1).*

The point of view of the writer who participated for the study was also the same:

*So in the first year, selling the concept and educating the clients are always a challenge (ARW1-1).*

However, it was noted that the majority of respondents who disclosed a challenge in obtaining information were able to overcome that issue by getting support from an ARPC or a writer to prepare their first INR.

*For the first one we hired an external writer (SB1-1).*

*Normally we are doing the annual report with some writers. At that time also we met together and discuss who is going to take which part and then we gathered all information and we provided that information to him explaining this is our flow, this is what we want and then he drafted that. And then we collectively review all of that (CN1-1).*

*Our first integrated report was a challenge, but it was a new thing, something wow. We wanted to take it on, so we took it on with the help of our reporting agency at that time. We did it with one off lecture by them (PL1-1).*

*ARPC1 have guided us through our first integrated report (TLC1-1).*

### **11.3.2 Issues in obtaining information for IR**

Some interviewees encountered operational challenges in collecting information as they did not have experience in extensive reporting:

*Data was the serious issue. Collecting, collating and reporting data, because, still what we have is very traditional FR framework. You do lot of things since this is part of your culture. And there is no necessity for you to keep a record of everything that you do. So that kind of comprehensive data capturing is not in our organisations...Since you do not have those kinds of data and also since you need to do a report, you collect all these data. So that is the extra burden that IR has put into us (B3-1).*

*Collection of data was a huge task. So that was a major issue (TR1-1).*

*Very difficult to get the information from departments (PW1-4).*

*It was a real challenge those days also, we need lot of information. It's a challenging process and that is very time consuming too (HC1-1).*

*Because in IR, we can't just go and collect the information. So we needed to have a clear-cut process throughout the year to collect the information. So that was the real challenge initially (HC2-1).*

Similar idea was shared by ARPCs also:

*Some of the companies have been there for 40 to 60 years, but they don't know where to get their information from and they don't know what information is relevant for IR. It is very hard because they have got used to that standard reporting structure (ARPC3-1).*

Consideration of what data should be collected, how the data need to be organised and reported were concerns in McNally et al. (2017) too.

An ARPC respondent and the writer shared different views, explaining that the problem is not because companies do not have information, but that they do not process such information towards relevant levels or parties in their organisations or they are afraid of divulging their information:

*The problem is the information. With all these new systems, still, the information that comes from them is very poor. One is they are scared about detrimental being divulged (ARPC1-1).*

The annual report writer's idea was the same:

*Getting them to give information in structured way. Some of them have it. But it's not with the board. With the top team. It's there with the technicians. So I was keep telling them this is like taking an X-Ray or MRI scan done and leave it with the technician and don't take it in to the consultant (ARW1-1).*

### **11.3.3 Difficulty of accessing and verifying non-financial information**

In respect of non-financial nature information, verifiability was addressed by participants as an issue based on how they rely on such measurement or presentation of information. This made for scepticism among participants on the reliability of corporate reports in future as follows:

*Lack of information is the biggest issue. Because that information doesn't exist. If they want to put something like for example Carbon, but if they don't have any kind of tracking, but they still expect us to find a way of putting it together (ARPC2-1).*

*We have no problem with the financial data. But only thing is that, you need certain comprehensive data and granular level data for these non-financial reporting (SB1-1).*

*Another week point I see how we confirm the reliability of the information, whether it's true, it's correct (PW1-2).*

*Initially actually when collecting information and how we present those, because this is a new initiative and so far, we submitted only numbers. Whether the reader will understand what we are saying. That's the concern we had about how we present these non-financials to the shareholders or the readers (DH3-1).*

*Problem in Sri Lankan context is that financial statements are preparing according to the accounting standards and auditors are also auditing those things according to those accounting and auditing standards. This financial information are easy to verify. But, this non-financial information, when they are not easy to verify, then how can we rely on that or how stakeholders rely on that information which are less comparable (ACASL2).*

Affirming the above notion of the academic, the financial controller of one of the largest conglomerates also shared that:

*People are looking at how much of carbon emission. Then the question is how we capture that piece of information and we have to have a reliable method to capture and those are the things that still we are learning (DH2-1).*

One of the greatest challenges for report preparers as highlighted by Beck et al. (2017) is the determination of non-financial material information to be included under IR. Similarly, the inherent subjectivity of reporting on non-financial performance measures were a concern in McNally et al. (2017).

Quality of data is identified as one of the main barriers to adoption of IR by IR Business Network participants in ACCA (2018), particularly in relation to getting the right data, getting it of good quality, having the right indicators, especially in non-financial areas. ACCA (2017, 2018) also claimed issues relating to quantifying value creation outcomes of non-financial information.

One of other largest conglomerates in Sri Lanka also shared that their main issue is obtaining information due to the unavailability of one system.

*Our biggest impediment is we are not on one system like DH2, one accounting system. If we look at them, most of their group companies are on SAP. In DH1, only partly, that there are only seven or eight sectors on SAP and another eight sectors to get on to SAP. Then we have one platform that we can use across the group for accounting and for reporting (DH1-1).*

A participant who was a former employee of DH1 and currently works in another diversified holding came with a different thought to the above reference by DHI-1. However, he may have worked in a sector which has already implemented the SAP system. His explanation was as follows:



*Basically, I'll go back to DH1. The availability of the information was the first thing. Because if you are covering strategy, governance, performance and so on, you need have such a lot of valid data, to verify this data you can't go and just put the numbers...So it's an overall process of two to three years building up this information and on the other hand is the validity of information. If you take some systems numbers are not tracked, some person who doesn't have the proper qualification enter that data, he or she doesn't know what they are entering. If you put garbage-in you get garbage-out (DH3-3).*

Several other respondents also conveyed that unavailability of a system to gather and process information was one of the major challenges in stepping into IR.

*Challenges are the information and the communication part. Data capturing is very challenging. If you take HT2, basically 90% of information is handled manually. Now only we are going for the new system that is Opera (HT2-1).*

*Obtaining information is one of the problems that we are having. So we are struggling with the system (TLC1-1).*

*IR is a matter of getting the information. In 2016 we introduced an ERP system. With that also we are trying to improve our information processing (TLC 1-2).*

A general view was shared by a participant who stated that obtaining information was not challenging to them as they were having a database system, as follows:

*Sometimes they [other companies] don't have the infrastructure. To capture the information or to build that information path, and they don't have the basic knowledge as how to get this (B1-1).*

In a similar line, companies in McNally et al.'s (2017) did not expect the extent of changes to information systems necessary for adopting IR.

Despite the two cases explained above, the study found two other scenarios where the participants revealed that they already had the information systems to support with IR data:

*In 2011, we shifted our formal accounting system into SAP. The key reason to handle this shift from our previous reporting into the integrated reporting is the SAP. After introduction of SAP, we have enough information...This SAP was also an advantage for us to get into this IR process. Actually, this SAP is the main part for us to get the information for our report (CN1-1).*

*We were at the front end for their information database. So all the information available with us. So it is not an additional thing for us to going for integrated reporting. Because all the information is with us. So it is not a new thing for us (PL1-2).*

Findings also revealed that in addition to the availability of the information systems, the coordination and integration between different departments also aided companies to succeed in dealing with the issue of obtaining non-financial information.

*We linked with the strategy team. More than the numbers we connect dots with each thinking pattern for an example HR, Finance, Marketing, Sales, Manufacturing whatever (DH3-1).*

*We have very supportive staff. For example, there is a dedicated person from HR department who sits in the annual report committee. For CSR projects there is a separate lady. Corporate communication manager is in the committee (DH3-3).*

*Teamwork is the key in our bank (B2-1).*

*With the finance division, marketing team and the engineering team also get involved in annual report preparation (HT1-2).*

*We have a cross functional team here. So there will be representatives. They know what we are doing (IN1-4).*

*Finance division and all other marketing, HR people connected during the review meetings (HC1-1).*

*Because whenever we asked information for something non-financials, they [other departments] give priority. Even with their operational work they give priority (MT1-2).*

A shared understanding between the teams preparing the different parts of the integrated report emphasise the purpose and value of IR (McNally et al., 2017).

While, a quarter of the participants mentioned that obtaining information was one of their major challenges that they perceive in their IR process, two participants communicated a different idea:

*My only concern is some information may not in a way to publish. We might have raw data in a different format. It is just a matter of compiling those and bringing those to an appropriate manner to disclose. That is the challenge (PW1-1).*

*I think it is a matter of appliance. We have enough information and enough material. Then applying is the way it is projected in the annual reports (PL3-1).*

#### **11.4 Challenges, issues or criticisms in IR framework**

Despite the growing number in IR adoption as discussed in Chapter 7, the study revealed that the number of companies which followed the IR framework is less. It was shared by one of the panel

discussion participants in one of the IR workshops in which the current researcher presented the same facts:

*We all have not very well aligned with the IIRC framework (Panel session of IR workshop, participant DH2-1).*

Therefore, one of the reasons for such less practice could be the challenges or issues they faced in relating to the IIRF.

#### **11.4.1 Lack of awareness on IIRF**

Less awareness of IIRF, issues in IIRF implementation and critics for the future orientation of IIRF are identified as being confronted by the study participants.

Eight respondents uttered that they neither know about an IIRF, they cannot remember of such nor do they have such document in preparing their annual report, when they were asked whether they are aware of this IR framework. All these interviewees representing early and timely IR-adopting companies is something worthy of attention. For example:

*No, I don't know (DH1-1).*

*I can't remember. Because I haven't done that for a long time (BI-2).*

*I have no idea (HT1-2).*

*No. What do you mean by IR framework? (DH3-3).*

*We don't have it in a document (PL1&2-1).*

However, the present study segregates the interviewee responses on IIRF into two. While majority of IR actors in the study praised the IR framework, some others criticised the same.

#### **11.4.2 Lack of guidance through IIRF**

Three responses were found providing critics for using IIRF as the future reporting norm:

*My own argument was that we are moving on a wrong track. When I was further reading, I found yes, Flower has brought the same argument. But, in a different way in 2015. He has also criticised it and he says it's a failure, the IIRC guidelines (ACASL1).*

*IR is emerging. For example, everybody throughout the world are trying to kind of say that an integrated report is going to be the moto. But it is not the case. There are lot of criticisms for IR as well (B3-1).*

*What I feel is we should report what we are doing, what we are planning to do. In doing so, we can use IR. You may not use IR. But if you feel IR is a good concept to follow. But I do not think we should get ourselves limited to IIRF. We can explore (B3-3).*

The lack of specific guidance on what should be reported is presented as a considerable barrier to effective IR reform (ACCA, 2017a; Stubbs & Higgins, 2018; Stubbs et al., 2014).

Inadequate guidance through the IR framework was also conveyed as a challenge in implementing IIRF in companies. For example:

*Sometimes, I have felt whether integrated reporting framework in a way hinders you in reporting what the actual performance of the bank. What you actually do. If you really want to structure in the way that the IR framework requires you to do, sometimes we may report on unwanted things (B3-3).*

*Personally, I think no company should be locked down to any framework. Companies should use these frameworks to communicate what companies are trying to do, what they have done for stakeholders, what we are planning to do, how we are creating value to them, how we are delivering value to them. That is what we do in AR, rather than going by all the frameworks (B3-3).*

*I think we used to borrow frameworks from everywhere (Panel session of IR workshop, participant REG1-1).*

*There are so many guidelines. Maybe, the UNGC guidelines, GRI, IIRF as well. What we are looking at IR is looking at group level information and integrated this information as much as possible towards group's strategic goals. So that is our effort, but I do not say that we are 100% in line. We are trying to follow as much as possible, but we do not really be slave of any kind of standards when it comes to sustainability. Because, it is unique to TLC1. We do not compare ourselves apple to apple with other operators (TLC1-5).*

*The reporting can guide thinking. Therefore, these reporting disclosure requirements should be effective. Needs to be clear and guiding people. But these IR guidelines are not doing that job. They are very weak (ACASLI).*

The study found a few instances where participants used the words 'Framework' and 'Guide/guideline' interchangeably. Although it seems that they are quite similar, they are not the same according to dictionary definitions. A framework is defined as a basic structure underlying a system, concept, or text and a general rule, principle, or piece of advice is defined as a guideline (Lexico, 2020). Yet, the following statement from one of the interviewees further leads one to assume they are different for the purpose of this discussion.

*If they introduce a guideline which we think is beneficial and which we will think is useful for us, we will adopt, and we are definitely following it. Because just a framework is a way off and does not make any sense (PL1-2).*

*I think the framework is very broad. With a one word they have touched everything. You can't point out a fault, because they have touched it, somehow with some word everything has captured...Then the thing is, how or to what extent people can understand and people can go ahead is very difficult. We need guideline (MT1-2).*

The purpose of this IR framework is to establish guiding principles (GPs) and content elements (CEs) that govern the overall content of an integrated report, and to explain the fundamental concepts that underpin them (IIRF, 2013b, p.7). An integrated report should be prepared in accordance with this IR framework and it is a general guideline that an organisation can adopt. A framework provides little practical guidance to help companies implement IR (PWC, 2019). The IIRF is launched after much analysis, experimentation and consultation. Though it is set to herald a new era in corporate reporting, still, many are wondering how to implement it and how to prepare an integrated report (Adams, 2013).

Based on IIRF, academic and professional scholars have published several other documents providing practical guidance to implement IR in a way tailored to their organisation and prepare their INRs.

One of the academics shared that IIRC already initiated drafting a guide in this regard:

*The integrated reporting Council is currently putting together an implementation guide on integrated reporting. So, that is working through the process at the moment. There are effectively three journeys to integrate recording. One is to combine your CSR report done under GRI or whatever, with your random report. And so, then there is a process by which you bring this together and we've learned from that particular journey in South Africa. The second way is to take the MD&A type of approach. The best example of that is in the UK, with a strategic report. So it is a very different journey, depending on where people are, having the implementation challenges and integrated thinking are very different in strategic areas or starting afresh in those particular areas so it depends on where they start on that journey as to what that might look like. So they are putting some guidance, together on that (ACAINTI).*

With an aim to help management with more practical guidance, the PWC's (2019) publication provides a roadmap developed for managing and measuring the broader value drivers that form the basis of IR. It helps management focus their attention initially on how they create value for stakeholders, how they monitor and manage that value creation process, and how they ultimately report their performance externally (PWC, 2019).

The PWC (2019) guide also provides the ‘how to’ for companies seeing a move by their regulators towards more holistic reporting as highlighted by MT1-2 who stresses the importance of a guideline.

Adams (2013) too provided an answer to the question of how a company prepares an integrated report. Besides the launch of IIRF, Adams (2013) set out 10 key practical steps for businesses to prepare for IR, under three broad categories: preparation for integrated reporting, achieving buy-in, and developing integrated thinking.

A joint report from ACCA and IMA found that accountants will be instrumental in the development and implementation of the integrated reporting process (IMA & ACCA, 2016).

### **11.4.3 Integration between sustainability and IR**

Integrated reports tend to limit the interconnection between sustainability performance and integrated reporting (McNally et al., 2017).

When the interviewer asked the academic who brought the critical arguments for the primary user of the IIRF whether he tries to reveal that value creation for sustainability has not been addressed through the framework, his idea was:

*We can't say it is not being addressed, they are still within the framework that we have to maintain shareholder wealth. IIRC has not ignored sustainability. I argued that no economic value creation..., value creation for others is complementary for economic value creation, that means you can't maximise profit ignoring social and environmental sustainability. That's my argument (ACASL1).*

He further uttered that:

*When we take this IIRC guidelines, they initiated this guidelines with the purpose of bringing sustainability and they issued their concept paper in 2011 and that is actually purely sustainability, but ultimately when it was brought as guidelines in 2013, it was different (ACASL1).*

Supporting evidence to ACASL1 was found in Flower (2015) as follows:

*On its foundation, the IIRC's principal objective was the promotion of sustainability accounting. The IIRC's current approach to sustainability is analysed on the basis of the Framework which it issued in December 2013.*

Nevertheless, Flower (2015) argued that for the integrated report to cover sustainability, it is essential that the firm should report on all the capitals that are affected by its activities. Correspondingly, ACASL1 claimed that:

*When you take from sustainability perspective, I'm happy about six capitals (ACASL1).*

Sustainable value creation depends on a company's ability to remain competitive in a fast-changing business environment, which in turn depends on its ability to manage new types of risks and opportunities associated with environmental, social, and governance (ESG) issues (Churet & Eccles, 2014; de Villiers & Maroun, 2018). The level of integration between SR and IR is also found to be low in the van Zyl (2013) study. The findings of the present study confirm the results of Camodeca, Sagliaschi, and Almici (2018), which stated that, IR does not provide the means for a verifiable disclosure of corporate sustainability and also consistent with Melloni (2015)'s evidence that IR is often associated to poor social and environmental performances, being a practice of impression management.

This poses another challenge as to whether sustainability is incorporated as a core element in IR framework. Two participants, including an auditor stated that:

*If an investor is looking at the company in holistic manner, as how we do in profits, how we do in CSR, how we do governance side, then the IR is the ideal framework. But if one person is really looking into the sustainability of the company alone, that won't do (B3-2).*

*People who want to find out information about sustainability I would say it's hard, unless they have actually used this one of the guidelines, like GRI (AU1-1).*

Similarly, de Villiers et al. (2014) pointed out that opinions are shared among various IR actors about whether IR truly enhances sustainability. Literature further supports that from the perspective of non-financial stakeholders, IR is considered as an overly narrow approach to enhance sustainability (Brown & Dillard, 2014; Milne & Gray, 2012). In a related line, Churet and Eccles (2014) mentioned that IIRC does not use the word "sustainability" in its definition of the concept. Further evidences was also found in Flower's (2015) paper which argued that in the IIRF, the IIRC has abandoned sustainability accounting. Thus, numerous academic scholars are critical of the scope and the substance of the IR's focus on sustainability and one of their main concerns was sustainability being diluted too much in IR (Haji & Anifowose, 2016; Solstice, 2005). Several other studies (Bayron, 2011; Brand et al., 2018; Brusca et al., 2018; Dilling & Caykoylu, 2019;

McNally et al., 2017) were also convinced that the interconnection between sustainability performance and IR is a major challenge in IR.

One of the academics from an international setting shared that the integration between SR and IR of companies are still at a learning stage:

*Companies are learning how to report IR and GRI. Even Novo Nordisk, they used to report based on GRI and they dropped GRI even though they're still doing integrated reporting... So here's my scepticism. IR is a framework. So the SDGs come out and integrated reporting just sort of bolted in. Right. That is where this GRI corporate leadership group are trying to get together and sort of reconcile. I think that there's going to have some sort of hybrid that comes out. So I think it's still in a developmental process (ACAIN2).*

#### **11.4.4 Connectivity of information**

Understanding the connectivity of information and comprehending these connections were also identified as challenges by few respondents in the study. For example:

*Connectivity also not understood, very difficult. Connectivity between capitals, strategy, performance, governance easy to say. We have not been able to understand that at all (PAOI-1).*

*Connectivity is there everywhere. But the hard thing is simplifying it. There are connections. So there may be millions of connections within an organisation. Comprehension of the organisation is the most difficult thing (MT1-1).*

ACCA (2017a) also recognised the connectivity as a challenge. Eccles et al. (2015) stressed the point that relationships among the IIRC's eight Content Elements – Organisational overview and external environment, Governance, Business model, Risks and opportunities, Strategy and resource allocation, Performance, Outlook, and Basis of preparation and presentation – should be presented in a way that shows their connection to the context in which the business operates and provides a clear explanation of the business's value creation process over the short, medium, and long term.

#### **11.4.5 Consistency and comparability**

In Chapter 10, it is said that financial statements are made in accordance with the consistent accounting standards and guidelines and can make a comparison. But when it comes to comparison of non-financial information, companies may set their own measurement criteria to develop non-financial KPIs causing comparison issues.



To ensure consistency, the voice from the regulatory body for IR in Sri Lanka was as follows:

*We are sort of saying use commonly use KPIs across an industry, but IIRC might necessarily say for yourself, but in comparability we are saying, look, if there is any industry benchmark, use that or any regulatory things so. We don't know whether we are right or wrong, but we are sort of trying to bring some kind of consistency (REG1-1).*

In opposition, MT1-1 brought the following idea explaining that comparability cannot be brought into an integrated report since it communicates the value creation story of a company and therefore IIRC has no role in developing KPIs for companies:

*KPIs would not be in the guideline for sure. How can IIRC tell what is important to a company? Because, finally it is coming from your strategies. What is the final idea of IR? You want to tell something about your story. Now say for an example, I spent Rs. 10 million on training. And another company spent Rs. 15 million on training. Say same turnover. Can you compare and say that one company is better than that? I do not think. I think that kind of comparability is not possible, when it comes to IR (MT1-1).*

Another respondent from MT1 and two academics shared similar thoughts to the above:

*In an integrated report compare my report with another competitor is very hard. Financials you can, because its same structure, universal standards, indicators given and IFRS unique for all the company and so you can compare...the way we have categorised our capital is also different. For someone else it could be social and relationship capital. For us its customer and business partner capital. So, comparing non-financial information is a bit tuff (MT1-2).*

*In respect of this non-financial nature thing when they take that different measurement in year to year, then consistency and comparability can't be maintained. That problem is there with guiding principles (ACASL2).*

*I don't think integrated reporting is going to completely replace the financial statements. If it does, then we would have issues with comparability, we have comparability across. Because it's so company specific. You can't compare across companies, you can't compare across time because the companies changed. And so if you look at what's the purpose of financial reporting is to provide information comparable information across companies. Right. We don't have that in IR. so that it may be that it's providing information. And I think we have a long way to go (ACAI2).*

These findings are confirmed in ACCA (2017a, 2018a) studies.

#### **11.4.6 Lack of focus on ethical leadership and governance**

Despite the robust corporate governance disclosures (as discussed in section 5.5.5 in Chapter 5) in Sri Lanka, a few respondents highlighted that aspects such as governance, ethical leadership and

behaviour towards capital and corporate culture are not adequately emphasised in the IR framework as follows:

*They [IIRC] have not elaborated on how this integrated report link with governance. South Africa has published King's code for governance. These are not explained in the framework (MT1-3).*

*I think even though they talk lot about INT, attention given in that area of capturing reality, which is ethical behaviour and ethical leadership and the governance, is very limited in this framework (B3-2).*

*I do not think this IR framework has given that much of importance and the prominence to ethical behaviour and ethical leadership and the governance. INT can be evolved into a King's code and then that will give some kind of a better understanding of the thinking pattern and the corporate values and the corporate culture... So nothing is there in this particular IR. It is only reporting. Even though it talks about BM, BM is also driven by the culture. So I do not think that we have given enough attention to the corporate culture and the value system. It would be very difficult for you to capture it, but enough attention is not given (B3-1).*

Maniora (2017) argued that the issuance of an integrated report leads to a re-evaluation of its ethics by the company itself (The IoDSA and the King Committee 2009), and IR could function as a main driver for the creation of an ethically minded corporate culture of companies. Ethical corporate culture is stated as a governance outcome in the King IV report (IoDSA, 2016). Ethical leadership and behaviour are exemplified by integrity, competence, responsibility, accountability, fairness and transparency in the same.

As far as IR is concerned, to Professor Mervyn King, companies need to have governance as the main concern, and that everything else is evolves from that. Participant B3-1 further explained that:

*What I think is much superior thing is the Professor King's report. That gives the prominence to governing body and the governance. He felt that governance aspect is the one which always runs the business to the excellence, which I believe also and may be correct. IR does not give that kind of an idea (B3-1).*

### **11.5 Issues related to the fundamental concepts of IR framework**

Consequently, several participants highlighted issues with relation to the three main components of IIRF, namely, fundamental concepts, guiding principles (GPs) and content elements (CEs). Issues relating to the three fundamental concepts, value creation (VC), capitals and VC

model/business model are discussed in this section. Issues related to principles and content elements in IR are discussed in Chapter 10 under the respective GP or CE.

### **11.5.1 Issues relating to primary user of an INR and value creation**

One of the university academics criticised IIRF in relation to its primary user:

*I can point out that they are [IIRC] still maintaining managerialism. That is managerial capitalism. The managerial capitalism is profit maximisation. That means still they give the priority for shareholders and they use these other stakeholders as means to their end. The value creation for other stakeholders has to be maintained, but only to the extent it [IIRF] will not affect the value creation for the shareholders. That is what it [IIRC] says. That's what we argue against (ACASL1-1).*

According to above quote, when managers try to focus on economic value creation and maintaining sustainability, that is the value creation for all others stakeholders, and when managers try to focus on value creation for sustainability, that does not support the value creation for shareholders. He stated that:

*This is kind of dichotomy (ACASL1).*

He further supported his argument bringing Flower's (2015) criticism into the discussion as:

*In 2015, Flower has also criticised it and he says it's a failure, the IIRC guidelines. The flower argues that it is a managerial capitalism. We have to come out of it (ACASL1).*

While drawing four conclusions from the three paragraphs of IIRF, namely 1.7, 2.4 and 2.5 (IIRF, 2013b, p.7 & 10), Flower (2015) claimed that the primary purpose of an integrated report is to explain to the providers of financial capital how an organisation creates value over time.

The framework makes clear that the primary purpose of an integrated report is to explain to providers of financial capital how an organisation creates value over time and proclaims that the value creation concept has two interrelated concepts, value creation for the organisation itself, which enables financial returns to the providers of financial capital and other stakeholders (IIRF, 2013b).

The participant ACASL1 also brought Adams (2015) into the conversation as follows:

*If you read Adams 2015. She says that if the shareholder interest is not served there won't be any existence for the organisation, therefore IIRC had done something needed because*

*we have to give the first priority for shareholders and then only, we have to treat others (ACASL1).*

Although Flower (2015) and the participant ACASL1 provided arguments against the primary user of the IIRF, the majority of other IR adopters in the present study claimed providers of financial capital or the investors as their primary user. Thus, answers for such critics of IR are found within the present study interview quotations confirming that their reporting journey converges with IIRC's investor focus.

*From readers' point, from investors' point, especially from investors' point of view they need to know what are the capabilities that the company is having other than their financial resources to support this financial performance in future also. That is why I think integrated reporting is important. Because this integrated reporting is more focused on investors rather than other stakeholders (MT1-2).*

*Because this integrated reporting is more focused on investors rather than other stakeholders (MT1-3).*

*Most crucial stakeholders are the shareholders (DH1-3).*

*And I have seen that during all the periods what we have been reporting from past to now is more information given to the shareholders or investors (DH1-1).*

*In integrated reporting it's focusing on the investors. There is a less priority to the balance stakeholders in integrated reporting. Mainly focuses on the investors (IN1-2).*

*Our strategies to create value to our stakeholders. Stakeholders means mainly shareholders. In any context it's the shareholder that gets the first priority (PL3-1).*

*The annual report is presented only to the main shareholders. They are the owners of the company. Our strategy should communicate to them. Because this report is mainly addressed to shareholders first (HC2-2).*

*Absolutely no one argues that we have to move away from just financial numbers and I 'm looking at a view from sustainability of the business. Sustainability of the business over the longer term and who is interested in the business is the next question. Shareholders obviously. Stakeholders probably (REG1-1).*

The voices from international academics also were supportive the above:

*IR has been primarily set up for the providers of financial capital. The reason for that is the materiality (ACAI NT1).*

*IR is focus on providers of financial capital and the reason for that I think is because it's really difficult to satisfy everyone. The goal or the focus of integrated reporting is investors (ACAI NT2).*

The respondent from the regulatory body for IR in Sri Lanka further explained that:

*I'm of course fully for the IR concept definitely. We can debate all these things, as you said academics are debating. My argument saying financial is the most important, now in company law still say the annual general meeting is held for shareholders. If this goes the other way around what you are going to do. Since that model is tried and tested and accepted end of the day shareholders resolutions, special or ordinary resolutions, stabilised through a structure and well thought and that whole world is going that way...Because in a Sri Lankan scenario or in an Asian scenario, principle shareholder is the most significant stakeholder. Where as in a European kind of a scenario, maybe it is the management team, why, because their share options, their remuneration package, maybe they have restrict on trade clauses, so they want to grow this to sustainable thing also (REG1-1).*

This is because for most of the companies, the reader of their AR is the investor. Companies do prepare their ARs for investors. IIRC clearly states that while the communications that result from IR will be of benefit to a range of stakeholders, they are principally aimed at providers of financial capital (Beck et al., 2017, IIRF, 2013b; Solstice, 2005). Beck et al. (2017) posed that such a position aligns with the traditional financial reporting paradigm of investors as the primary stakeholder, but differentiates IR from the existing sustainability frameworks, such as the GRI, which have embraced a multi-stakeholder approach. Wild and van Staden (2013) also suggested that the reports are still only focused primarily on the shareholder group's needs.

However, the current IIRF revision process commenced on February 2020 to revise one of the more debated sections of the IR framework, Section 1C, which describes the purpose and users of integrated reports in paragraphs 1.7 and 1.8. With an objective of clarifying current misinterpretations and advancing the IIRC's position on the importance of providers of all forms of capital, topic paper 3 of the IIRF revision (IIRC, 2020c) amends Section 1C, paragraphs 1.7 and 1.8 as follows:

### Purpose of an integrated report

Simple changes can clarify current misinterpretations and advance the IIRC's position on the importance of providers of all forms of capital. Specifically, the <IR> Framework can amend **Section 1C – Purpose and users of an Integrated report** as follows:

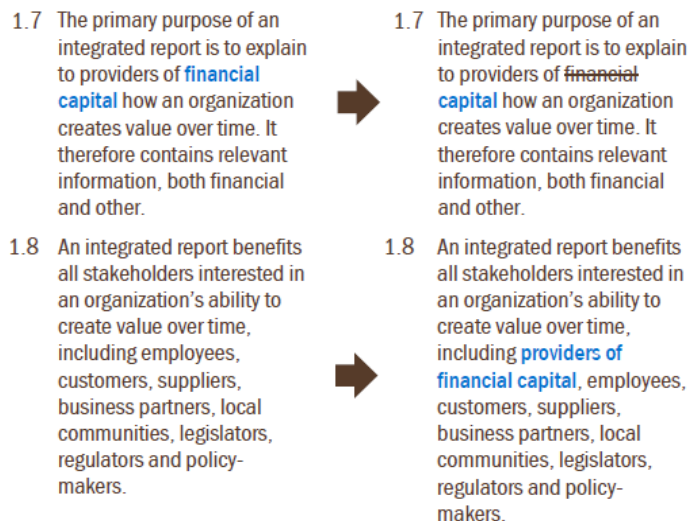


Figure 11.1: Extracted from Topic paper 3 of IIRF revision (Source: IIRC, 2020c)

Although many Sri Lankan IR adopters accepted providers of financial capital or investors as the primary user of their INRs, they have not perceived value creation only from the perspective of financial value creation.

*Creating value to the stakeholders is not only the financial. It has a broader meaning of value (PW1-1).*

*Honestly people are struggling and I'm also struggling. Traditional method was that broader component thing. I mean the financial view of doing it was again stakeholder concept. Government, employees, shareholders by way of dividends, so that was in terms of money (PAO1-1).*

*Value added statement. The traditional one talks only about monetised value added. And we very specifically say that. It's the value that is monetised. But there are lot more value which is not monetised (MT1-1).*

*Value creation depends on value system. Stakeholders' value system. Sustainability reporting it says that VBN theory, Values, Believes and Norms theory. One is that, those who are having altruistic values, that means those who are unless there is a direct impact to them, they are not worrying about whatever happening in the environment. Other category says that social altruistic, those have no direct impact to me, but once they came there is an impact to other human being, they may come forward against that. Others are having value orientation (ACASL2).*

*...but also considers everybody else at some broad societal perspective. It's all resources and relationships which are at varied levels in organisation (ACAI NT1).*

The above ensures the aspect of “to whom the VC” is in IR. However, it is worth looking at how different participants have viewed the value creation (VC) concept, since it has been challenging for some organisations in defining what their VC is:

*How we create value through is; one is because of our brand name, company engagement with so many stakeholders over so many years. That create the first fundamental trust to create the value (TR1-1).*

*VC is the upliftment of the general public of the country or what kind of contribution as a financial institution you do to upgrade the GDP and the physical assets and other aspects of the development of the country (B3-1).*

*Fundamentally, for me, the value creation is improving the quality of lives of our workers. So, everything that I do, I drive for my first most important thing is my employee, not my shareholder (PL1&2-1).*

*Value creation you can talk about several aspects. Basically, for shareholder point of view they want the market share, they want the profitability, earnings per share, that's our KPIs. Value creation in terms of other aspects, like, quality of work life balance and social CSR and how happy our people are, so we tend to work on that one also (IN1-1).*

*We started in 1997, and up to 2014 and 2015, a 10 rupees per share went up to 70 rupees and, only last two years only it has come down about 50. So that itself is a value creation. so, the value for the shareholders have been created (HT1-1).*

*We create our value through the technology and the experience (HC1-1).*

The process that results in increases, decreases or transformations of the capitals caused by the organisation's business activities and outputs is manifested as the value creation (IIRF, 2013b; SAICA, 2015).

### **11.5.2 Issues related to capitals**

Despite the value creation, the other fundamental concept of IIRF is capitals. Confirming the results of ACCA (2018), one of the main issues found in the present study when applying the IR framework concerned its terminology, particularly the term ‘capitals’. An academic perspective was explained as:

*When they [IIRC] define capital as resources and relationships, which are used by an organisation and which are being affected by the organisation. That is how they define capital. Then there is question coming I mean, what do they mean by the capital. Just say*

*relationships and resources? Would it produce any meaning? That's why people don't understand. That is a problem in this guideline or of this framework (ACASL1).*

However, one of the IR leaders in one of IR champions in Sri Lanka endorsed IIRC's capital definition using their own capital definition:

*We have used the term recourses and dependencies. it is not only resources. It is also dependencies on the capital. what is important is not the capitals. But the inputs provided by the capital. That is what important. It's not the capital itself. Capital itself is not useful. Why we do all of these things is to improve the inputs on the capital. That's why we called it recourses and dependencies (MT1-1).*

The respondent ACASL1 brought another important insight, highlighting the importance of a stakeholder approach to address these capitals. While appraising the six capitals concept in IIRF, ACASL1 emphasised the need of multi-capitals as:

*I appreciate these six capitals address all stakeholder groups which are mentioned in stakeholder theories. Therefore, all the stakeholders whose association is needed for the business are captured within these six capitals. Customers, suppliers, local community, general public everybody is captured. That is true. But, if you see this integrated reporting guidelines, no where they mentioned about any group of people. All these stakeholder groups are captured, but check in these guidelines, no where they mentioned any single group. Without that they say like these are the capitals, these capitals have to be served, these capitals have to be maintained, but nothing about people. They are not talking about employees, customers, suppliers, but only capitals (ACASL1).*

Prior research is also consistent with the IIRC's narrow identification of target stakeholders (Beck et al., 2017; Rambaud & Richard, 2015; Solomon & Maroun 2012). In a similar line, Coulson et al. (2015) explored metaphors of capitals and the framing of multiple capitals and identified challenges in relation to the use of the capital terminology and connectivity between capitals.

Providing answers to such unexplored areas in IR research, the present study developed a theoretical framework to manage the multi-capitals concept based on a stakeholder approach which is presented and discussed in Chapter 4 in detail.

Another finding from the interview discussion was the challenges encountered in defining and identifying manufactured capital and social and relationship capital by different IR actors.

*In this reporting there are two areas that I'm not clear, that is on these two capitals. Relationship capital and manufactured capital. I was reading and reading the definition, but I could not understand. I asked my colleagues even, even they do not understand (DH3-3).*



*People don't understand, manufactured capital, they all are just to be exploited by the company (ACASL1).*

*The manufactured capital of course is again a very unclear area. Some people argue that infrastructure outside the enterprise also in it. In this manufactured capital there is a manifestation in cost, technology, efficiency and all that and I suppose it is a bit so not clear area (REG1-1).*

*Defining a manufacture capital for a service organisation is somewhat questionable (B2-1).*

*Most of the clients really don't know how to report on manufactured capital. I always think that it starts by dissecting your fixed assets note in to functional. So fixed assets note tell me how much of land property, equipment or whatever I have. I want to know where it is used (ARW1-1).*

The framework describes manufactured capital as “manufactured physical objects that are available to an organisation for use in the production of goods or the provision of services, including buildings, equipment, infrastructure (such as roads, ports, bridges, and waste and water treatment plants)” (IIRC, 2013b, p.11 &12, paragraph 2.15). In the same paragraph on page 12, it further states that “manufactured capital is often created by other organisations, but includes assets manufactured by the reporting organisation for sale or when they are retained for its own use”. The ACASL1 highlighted the above phrase saying that it misleads the user and provided a clarification as follows:

*Assets manufactured by the reporting organisation for sale is stocks. Stocks cannot be taken. It's not a capital. Actually if you take the business model, the capitals are used to create value, and then the value again goes back to capital. It contributes. That mean the capital should be remained for further value creation. But what is about stock. Stocks is materials they sale. It is consumed, how we can say it's a capital (ACASL1).*

From the point of view of ARPCs and ARWs, most of their clients have encountered issues in identifying social and relationship capital, such as:

*Honestly there are companies that don't have any kind of social capital. Really they don't have anything called social and relationship capital. But they want to write something (ARPC2-1).*

*Social relationship capital we are just getting. I mean of few of the clients we talk to, they really get it and they track it. But for new clients, it's always a challenge. Because, they haven't checked to see how many principals they have, how much of their revenue come from the products that are provided by these principals. They may never disclose it (ARW1-1).*

Contradictory results were found in the study SAICA (2015), where they revealed that in recent years, more and more organisations have recognised the importance of social and relationship capital, which in many cases affects the organisation's social license to operate.

#### **11.5.2.1 Challenges of capital trade-offs**

Surprisingly, except for an academic and three interviewees from MT1, none of other interviewees were able to share their views on challenges of capital trade-offs in the IR concept. The academic said:

*When look at this guideline it says transformation of capitals. That's the misleading idea (ACASL1).*

*Capital trade-off is all about the capital. It's the non-financial budgeting basically that we are talking about. When you go to IIRC and search capital trade-off, they don't have any article or anything about that (MT1-2).*

IIRC accepts that it is appropriate to trade-off a decrease in the value of one category of capital against an increase in another category (Flower, 2015). The framework states that the capital includes the interdependencies and trade-offs between the capitals, and how changes in their availability, quality and affordability affect the ability of the organisation to create value (IIRC, 2013b, p.17) and important trade-offs that influence value creation over time include trade-offs between capitals or components of capitals, trade-offs over time and trade-offs between capitals owned by the organisation and those owned by others or not at all (IIRC, 2013b, p.31, paragraph 4.56).

However, the academic (ACASL1) argued that:

*Going ups and downs they have managed only as far as they believe these are plus and minus. Win and loss. No, it should be win-win. If we perceive it to be win-win, there is no trade-off. We need to have trade-offs when they are opposing. Because that will happen only as far as they believe there is a transformation. It goes from one to the other. No. We have to come to a kind of a balancing point. That is trade off. But when they are not opposing, no need of any trade-off. They are win-win. That is the misbelief I try to point out... We may spend some money for employee welfare. But we need their engagement, they bring returns. You can't compare the amount of money you have spent for motivation and the return you are getting from employees. You can't compare. One is financial other one is non-financial (ACASL1).*

Confirming Flower's (2015) basic idea was that a firm's integrated report should indicate how the firm, through its activities, has created value, as measured by the increase less the decrease in the value of these capitals.

Sharing similar thoughts, the two respondents from an early adopter (MT1) provided different perceptions to ACASL1 as well as Flower (2015). When MT1-1 is asked whether the value (financial value) depletes when a company spends for development of another capital, he answered that:

*Why we are committing our monetised capital today to increase the business partner of choice is because you believe in future that it will generate monetised capital to our shareholders. So in short term yes. What you told is true. Reduction in financial capital is reduction of value. Then we assume that in future it'll give us return. So that is the answer to that question. We can't really limit ourselves and say that simply because this capital is reduced then the value depleted (MT1-1).*

He further explained using the example of training:

*For example, training. Training is done outside our value chain. There is a trade-off. Very common example that our money goes out and our human capital improved. We have given information about capital separately and trade-offs separately. Just to give an idea of why we have spent that money or why we have exhausted that capital or whatever (MT1-1).*

Confirming the above, SAICA (2015) revealed that the capitals also have an influence on each other and at times the organisation needs to trade-off between capitals; for example, an investment in staff training could deplete financial capital but enhance the human capital available to the business.

The MT1-2's view on the capital trade-off was the same:

*Trade-offs are really complicated when you take non-monetised capitals. Sometimes it's a plus and plus. When worth of your customer relationship capital increases simultaneously your intellectual capital is also increasing. Because when we invest in our employees to do something, there by employee capital, human capital increases and also their knowledge base increases so intellectual capital also increases. To train our employees we sacrifice our monetised capital. But we believe sacrificing monetised capital, the value created in human capital will be higher than the sacrificing the monetised capital (MT1-2).*

In order to overcome such reporting issues on trade-offs, MT1-2 emphasised the importance of incorporating technology to drive information systems to gather information on such trade-offs.

Furthermore, the revision process of IIRF launched in February 2020 also forges ahead with the third topic paper addressing the role of technology in the IR process. MT1-2 shared that:

*The ultimate impact is what we have to talk about. But to that level we are not matured enough. We don't have that kind of information system, may be technology has to come and play some role here to identify that linkage (MT1-2).*

The same idea was shared by the respondent in the same organisation:

*Because at the moment we are not able to articulate the trade-offs. We don't have enough information. We don't have enough matrixes. We don't have enough KPIs. What we report now on trade-offs is just a very basic thing (MT1-1).*

Affirming the above, a recent book on IR mentioned that IR has the potential to represent a win-win solution satisfying substantive organisational accountability measures (Bini & Bellucci, 2020).

The next challenge was expressed in relation to the third fundamental concept of IR, namely, the value creation (VC) process. The VC process was depicted in the business model (BM) or the VC model and it is assigned to CEs in IIRF.

### **11.5.3 Challenges in value creation model or the business model**

A key feature of the IIRC's agenda to improve corporate reporting is to encourage companies to use INRs to disclose their underlying business models (IIRC, 2013b, Tweedie et al., 2018).

Despite these initiatives, the present study finds issues and challenges in relation to BM. For example, from the point of view of ARPCs, the challenges were:

*The problem in the business model concept or value creation concept is that they are made for reporting and not for the actual functioning of the company (ARPC2-1).*

*BM is not a reflection of what happens in the company (ARPC2-2).*

*BM, on the face of it, companies thought it is a simple thing because everybody is having BM. But when you get on documenting the model, they realise that it is not simple (ARPC1-1).*

It seems that writers too have aided in exemplifying companies' BM. The writer uttered that:

*Absolutely no client has ever given us, hey [mentions name of the writer], here's our value creation diagram, this is how we create value, never happen... We seek to provide clarity*

*through clear diagrams. If you look at any of our reports, we have a central value creation diagram. We sit and figure it out with them (ARW1-1).*

The above statement is confirmed by one of the respondents in the plantation sector as follows, mentioning that they prepare BM merely as an illustration in their AR and for that they obtain the assistance from a writer:

*Actually, she [writer] did not invent this, she did not create this, this is our model, she just put it into a graphical technical form. We are in the learning process and she only came up with this illustration. This is what we do actually, this is just an illustration (PL3-1).*

Present study findings support the idea of Melloni et al. (2016), who investigated the informativeness of BM disclosure and revealed that company managers adopt impression management strategies by manipulating the tone of the BM disclosures provided in their reports.

Several interviewees offered support for this view, sharing their difficulty in understanding the BM and aligning the BM with the business operations:

*To me personally, I don't know. How to present the business model (B3-2).*

*This [BM] is the constraint, because this is bit of technical stuff. So people don't understand that part (SB1-1).*

*We have been having number of meetings to finalize this business model and all that was to simplify this. What we initially came up with was with lots of words which I don't understand (MT1-2).*

*When we talk about the business model, they were clueless on the business model and they are asking why business model. Some think that it is just a word (HT2-1).*

*In current dynamic environment, business model and business operations, sometime 100% won't align. Practically it's difficult to align (TR1-1).*

The description of a business model as in IIRF is its system of transforming inputs, through its business activities, into outputs and outcomes that aims to fulfil the organisation's strategic purposes and create value over the short, medium and long term (IIRC, 2013b, p.25). Maniora (2017) claimed that the explicit identification of the key BM elements enhances the effectiveness and readability of the description of the BM, as indicated by IIRF and, firms are expected to describe their BM in terms of inputs, business activities, outputs and outcomes in detail. And there is a widespread acceptance that it refers to the process of value creation (Beattie and Smith 2013; IIRC, 2013d, Maniora, 2017; SAICA, 2015).

In support with the present findings, some academic and professional studies (ACCA, 2018a; Beattie & Smith, 2013; IIRC, 2013c & 2013d; Maniora, 2017; Melloni et al., 2016) also described limitations of current BM disclosures as uninformative, inconsistent, incomparable and incomplete and these are attributed to the lack of consistent guidance. The IIRC only provides a little systematic analysis on BM and briefly explains its business model concept (Beattie & Smith, 2013; Nielsen and Roslender 2015). Tweedie et al. (2018) critically evaluated IIRC's distinctive business model concept, claiming that it is not well understood. A PWC study in 2014 based on interviews found that investment professionals have difficulties in understanding companies' BM, strategy and value creation (PWC 2014). IIRC's Summary of Significant Issues (IIRC 2013c) shows that companies face several challenges, including the definition of BMs and the relationship between strategy and the BM.

According to the IR framework, the IR adopters should consider BM as a fundamental content element and provide a complete and balanced (both positive and negative aspects) representation of how organisations create value by means of their BMs. IIRF stressed that the information is 'balanced' when it has no bias in the selection or presentation of information and it is not manipulated to change the probability that it will be received either favourably or unfavourably giving equal consideration to both strengths and weaknesses of the organisation, both positive and negative performance (IIRC 2013b, p. 21-22, paragraph 3.44-3.45). An INR to be 'complete' information should include all material information, both positive and negative (IIRC 2013b, p.22, paragraph 3.47). In this sense, the IIRF itself seeks to provide an answer to criticisms raised on BM.

In accordance with ACCA (2018), some present study participants shared the usefulness and importance of the BM concept in their organisations as:

*Every company need to have a business model otherwise they can't run. Creativity will simplify the business model. When we are explaining business model, it's a critical and it's a complex one, but when we put it in to a page or in a book, we have to use creativity otherwise no one can't understand our business model (MT1-3).*

*Having a BM will help you understand if you are staying abreast to the changes. Relevancy in terms of BM is very important and I think it is a fantastic addition to IR, because it really helps you understand if you are relevant and if you are doing the right things (PAB2-1).*

*If my objective is to show how we create value, then I need to use the BM (MT1-1).*

*Business model drive our strategy (MT1-2).*

*The business model explains the company operations as to how it is operating currently (TR1-1).*

*This business model in the sense is a kind of macro picture about the whole business (B2-1).*

*BM is important because this shows the link between our capitals and our outputs like in a financial reporting model you see only the numbers, you don't see the things behind the curtain, so here you show the flow or the link, so in that sense this is good (PL3-1).*

In this way the present study was able to uncover the answers to the identified challenges regarding the BM.

ACCA (2016b) reported that 90% of their survey companies believe that IR would add more value to understanding the factors that affect a company's BM. EY (2014) concluded that the BM is a critical component of IR because it assists in meaningful engagement with investors and other users of annual financial statements.

The IIRC also formed a Technical Collaboration Group to prepare and issue a BM background paper to define the term BM and provide guidance for practitioners for the disclosure of the BM and strategy clarifying how the BM fits within the broader IR framework (IIRC 2013d). AICPA (2017, 2018) published two practical guides, one aligning the business model to market opportunities and sustainable performance and the other describing how the CGMA Business Model Framework helps boards, senior executives and support staff quickly and easily gain an understanding of their organisation's business model.

Despite these initiatives, IIRC (2020b) called for feedback on business model considerations as one out of the three topics they address in relation to the IR framework revision process. IIRC (2020b) identified four issues related to business model disclosures, whereas most reports failed to provide a clear bridge between the business model and broader value creation and some other reports showed an imbalanced reporting of outcomes with a tendency to promote the positive. As a solution, in this IR revision process IIRC called for feedback on a proposed plan for Section 4C of IIRF, addressing business model disclosures in the integrated report.

## 11.6 Challenges in value relevancy of IR

A few interviewees expressed issues pertaining to the value relevancy of IR in terms of its lack of capital market orientation. For example:

*Is any of these ever brought us new investor? No, it isn't. In my opinion, all these things depend on the path where we are economically heading. At the same time, in annual general Meeting (AGM) the only thing grabs shareholders' attention is information relating to the dividend per their share. In this context, the ultimate gain what we receive through the financial reporting is the arrival of the internationally recognised investor who satisfied to invest us after having been reading our report. So far, we have not received such an investment. Throughout my carrier, personally I have involved in writing 6 reports, but none of them brought us neither new customer nor new orders (DH1-3).*

*From a company perspective, I do not think that IR add value to us in the capital market (DH1-1).*

*When you report in an integrated manner, but does that necessarily mean that your organisation's values in term of the like book values, market values all of that, is it really going up? That is questionable (PAB2-1).*

*Is there an impact of this IR on share price? Then yes, there is a value addition. Our market is not a very sensitive market. Say for an example, the said theories are not aligned with our market. Therefore, details included in our annual report do not affect the market value of our shares at the share-market (TLC1-3).*

*The share market is not really sensitive on IR. Are our investors really looking at the annual report and are they deciding ok we need to invest in companies? No (DH3-3).*

Several studies have examined how investors and markets react to IR disclosures (Barth et al., 2017; Bernardi & Stark, 2015; Zhou et al., 2017). Beck et al. (2017) suggested it is challenging to convince report preparers and investors that adopting IR will positively impact on capital flows.

Contrary to the present findings, Arguelles et al. (2015) found capital markets value the disclosures made under IR principles by early adopting IR firms. Using data from South Africa, Barth et al. (2017) found a positive association between IR quality and liquidity, which supports the capital market channel, whereas no evidence of a relationship was found between IR quality and cost of capital. But Garcia-Sanchez and Noguera-Gamez (2017) confirmed a negative relationship between the cost of capital and the disclosure of an integrated report. Besides, publishing an integrated report triggers enhancement in value relevance of ESG performance (Eccles et al., 2011) and it seems to improve investors' ability to price ESG activities in the positive direction (Mervelskemper & Streit, 2017)



Interviews in Slack and Tsalavoutas (2018) revealed that IR's usefulness to fund managers and equity analysts is low. Confirming this, the present study found that:

*Still there is no business impact on IR. People won't see right now as what is the business value of this IR. It is just a reporting yet. What you do, and how you do it, you convey to external parties (SB1-1).*

*Sri Lankan market, I do not think that our stock market has matured to that stage, where analysts or whoever is getting into that detail monetised information from reporting (Panel session of IR workshop, participant MT1-1).*

Thus, the implication of this is that IR may become a reporting fad, not embedded into mainstream investment thinking (Slack & Tsalavoutas, 2018). In contradiction to the above, Zhou et al. (2017) suggested IR provides incrementally useful information to the capital market over and above existing reporting mechanisms.

### **11.7 Challenges related to the content of the report**

The level of adherence to the conciseness principle in IR was said to be challenging for the present study participants. For example:

*In challenges, one thing is conciseness (IN1-4).*

*Conciseness is very poor everywhere in the world (PAO1-2).*

*Conciseness is a tuff one to do (REG1-1).*

*Conciseness is very difficult (B1-1).*

*Balancing the pages or the volume is another thing that we are really worried at (B3-2).*

*Conciseness is of course one of the challenges that everyone makes observations when we talk on the IR in Sri Lanka (Panel session of IR workshop, participant REG1-1).*

*IIRC have not mentioned how they define the conciseness. Simply they have not defined it (MT1-3).*

The following shows how interviewees perceived the value of the IR principle of conciseness. For two of them (ACASL1 and MT1-1), conciseness meant clarity.

*Conciseness will come from the clarity in the idea, to me. If we are not clear in idea, we can never be concise (ACASL1).*

*For me, conciseness is the clarity in presenting the information (MT1-1).*

*In IR you have to give the essence of information. You should write to read for people to understand in a concise way (PL3-1).*

*IR drives the principle of conciseness. For me that's the most valuable thing in there (ARW1-1).*

*Conciseness is the very heart of integrated reporting (Panel session of IR workshop, participant ARW1-1).*

While the above identified the significance of the conciseness principle in IR, the moderator of the IR panel session posed a question about whether conciseness is necessarily a core guiding principle in IR:

*Why would management team or board want to save much of the things they can and they had, for them to make it concise. That is the challenge that they faced in. I'm not sure whether conciseness is necessarily a core guiding principle. That is critical whether we get it right. May be much more important things than conciseness, although it is there at the moment (Panel session of IR workshop, participant REG1-1).*

The IR framework defines the conciseness guiding principle as “an integrated report should be concise” (IIRC, 2013b, p.5). Flower (2015) argued that the IIRC definition is couched in very broad terms that impose no specific reporting obligations. The interview findings also evidenced that conciseness meant something different to different IR actors. While seven respondents from five IR preparers had no clue on what this conciseness principle in IR is, some replied with the following explanations when they were asked what they knew about this:

*Now in conciseness, initially in 2014, our annual report was about 572 pages. Now last year it was about 365. We have reduced the number of pages (B2-1).*

*At the moment, this concept of conciseness, the way we look at is, we look at the entire annual report given by the number of pages, say 200, 300 and it can even be up to 400 plus (Panel session of IR workshop, participant ARPC1-1).*

*Actually, they [IIRC] talk about 45 pages in an INR (DH3-2).*

*What if we can concise, what if we can give 300 pages of information in 100 pages? Still we are cutting down something. you have the same quality of information used in a lesser number of pages. So, then we are focusing on quality over quantity (ARPC3-1).*

*But to me a good integrated report has to be a short one. It has to be something that I can sit and read within an hour (ARPC2-1).*

*I do not think even our writer know that we have to be concise (PW1-1).*

*For this report to be useful, it has to be limit to a particular size (HT1-1).*

*Concise report is very good, if it is recognised and rewarded or acknowledged. It's easier and less costly. Because printing cost today is very expensive (PL1-1).*

*Our report this time is 170 pages. Financial information alone is about 50 pages. I think an integrated report should be of maximum 50 pages including financials (PL3-1).*

*We want to make sure that this is a readable report. Always we think if nobody is reading, then our effort is wasted. We want to keep it to the maximum of 180 pages and this time it is just 167 pages (HC2-2).*

The PL3-1 respondent shared some thoughts on being concise referring to their two main competitors:

*If you look into PL1 this time, it has 280 pages. So that is not anyway compliance with the conciseness, right. If you look at PL2 report, even though they got the gold award, their content is too much. You get fed up of that content (PL3-1).*

Even though the majority expressed conciseness in terms of number of pages, only two participants articulated that conciseness is not about number of pages, but is about the content of the report.

*Conciseness is not about pages. It's not fair to look at it with the pages. Conciseness is about being concise in content. I do not think the number of pages is the ideal definition for the conciseness. If we have said something unnecessary, which could have been avoided or if we have not been very clear, if we have not provided the proper content, then it lacks conciseness (MT1-1).*

*Not number of pages wise, but what are the material information to stakeholders that should be disclosed. That is material. Not given that page wise (ACASL2).*

However, past IR studies defined conciseness principle from the point of view of number of pages (Clayton et al., 2015; Ruiz-Lozano & Tirado-Valencia, 2016). Therefore, it is reasonably argued that number of pages certainly has some integration, since we do not call a 500-page report a concise report.

In the launch of IRC SL in 2016, IIRC Markets Director Sarah Grey said:

Stakeholders are attracted towards a 100-page integrated report, which covers the most crucial aspects of the company's financials, types of capital and sustainable development, and if the option is available between the two, almost never download a 300-400-page annual report (Dialymirror.lk, 7<sup>th</sup> July 2016).

IR expert and CMA IR Awards 2015 Judge Graham Terry added that:

Most companies that applied for the awards had failed to grasp the purpose of integrated reporting and had applied with full annual reports. Despite their length, he criticised them for

not including quantitative data on aspects like customer and staff satisfaction, executive level remuneration, as well as treating corporate social responsibility (CSR) as side projects for public relations propaganda (Dialymirror.lk, 7th July 2016).

Report size has also been addressed as a barrier to developing IR by several academic and professional studies (Solstice, 2005).

### **11.7.1 Trade-off between conciseness and materiality**

The IR framework states that materiality and conciseness are two GPs for IR. Further, in the IIRF, the IIRC stated that an integrated report includes sufficient context to understand the organisation's strategy, governance, performance and prospects without being burdened with less relevant information (IIRC, 2013b, p.21, 3.37) and an integrated report should disclose information about matters that substantively affect the organisation's ability to create value over the short, medium and long term (IIRC, 2013b, p.18, 3.17). Thus, they identified strategy, governance, performance and prospects as such substantive matters that decide a company's materiality. These statements have given rise to scepticism among different IR actors as they are striking a balance between the comprehensiveness of all material information and conciseness.

*Preparers must be struggling. Because they have to balance two areas, like we have to give information and we don't have to give too much of information (B3-2).*

*How can we make a trade-off between these two? (DH3-1)*

*It's a trade-off actually that we are looking at here (Panel session of IR workshop, participant MT1-1).*

*How to balance? We try to not to limit it just to shareholder. We try to give information may be to employees. So, we don't try to cut that information drastically. So that what happens when we want to strike that balance, the area we suffer is the conciseness (IN1-4).*

*Can we reduce pages? Because IR is it gives more information to the stakeholders. In that context, we can't think of reducing the number of pages. We have to report the content, but then how do you manage with less number of pages? If you want to give more information, then you want more pages (DH3-1).*

*When we come to that materiality, it says that all material information needs to be presented. In other way in a same line it says that it should be brief. There may be some contradictory thing. Materiality concept says that all material information needs to be presented and at the same time it says about conciseness, so that problem is there (ACASL2).*

*With IR, with the materiality and the conciseness, giving out the sustainability message will be limited. The challenge is, when it comes to the things like GRI, you might have to go away with the full sustainability reporting idea with your conciseness. Report only what highly material to you and bring down on the content without destroying the value. That's kind of a challenge and even GRI understands that. They are trying to be more in line with IR (B3-3).*

An academic from an international setting brought the following view explaining the above with an example:

*There's a trade off in between detail and being concise, right. So, I don't know how easy it is in an ideal world, would you give an integrated report in a couple of pages, probably not. Because think of all of the things you're supposed to be describing and describing in a meaningful way. So I could say yes, my company is focused on providing value to the communities in which we operate. Because that's concise. Was that really give you any information? It doesn't give you any information in order to really be able to demonstrate that in a report that's equivalent to a financial statement. I have to give detail. And if it truly is throughout the organisation, it's not going to be one thing. Right, it's gonna be a lot of programs, it's gonna be come up with performance metrics for those programs or some way to convey credibly that I actually am doing that. So I don't know what concise means I don't know how many pages they had. But ideally, you're reporting on every aspect of the company, and how it's providing value. Right. How do you do that in a concise way. I don't know (ACAI2).*

The ACCA (2016a) report explored the issues of materiality and conciseness in IR from the perspectives of corporate report preparers and auditors. It found that preparers are concerned about how they can provide a concise report that is not too broad to be useful and at the same time meet the needs of a range of stakeholders with one report (ACCA, 2016a). Stubbs et al. (2014) mentioned that IIRF does acknowledge this challenge to some extent by seeking a balance between conciseness, completeness and comparability.

These findings lead one to believe that the real essence of the conciseness principle IR has not taken hold in the Sri Lankan context because the results showed an increase in the number of pages after adopting IR in the selected sample companies. Supporting this view, one of the ARPCs' voices said:

*We have noticed some clients who have shifted from standard reporting to IR or GRI, suddenly too bulks of the report (ARPC3-1).*

However, the voice from an academic reasoned out the above and brought international experience as:

*That was the experience in South Africa for example where they combined CSR type of report. We saw that pages go up and come back down again. So it's part of the journey. So, the initial was to put all this information in, and then you start to integrate it. So it is part of the journey. So, in times of this you've got to look at the annual report and see what you can reduce in the annual report. In the South African experience, in the first place the pages go up. And then, though the learning over time, the pages have come back down again because they've become much more integrated (ACAIINTI).*

When exploring the reasons for such increase, the study uncovered several reasons through interviews. Out of such reasons, IR award competitions were identified by the majority as a main barrier to follow this concise report. Similar weight is placed on compliance-based reporting requirements (this includes governance codes, IFRS reporting and auditor specifications). Conglomerates expressed that their expanded business operations have resulted in bulky ARs. Some others viewed that the desire to include everyone's voice in ARs. Disclosure of users' needs and disclosure of corporate management information have also caused increased report size. Presenting unnecessary information was also shared as a reason for such increase. Each of the above is discussed in detail in the following subheadings.

### **11.7.2 Evaluations of award competitions as a barrier to conciseness**

Further investigations of the study findings revealed that conciseness is not possible because of the IR awards, especially of its marking scheme.

It was interesting to see that all the participants from the three ARPCs selected for the study shared a similar idea regarding IR awards and their impact on the report size:

*So, my advice for the clients is, don't just dump in information for the sake of dumping information. Don't do it because you want to win an award. Do it because of a genuine reason, be genuine about your report (ARPC3-1).*

*The biggest problem is this award. We have been saying don't think about this award. Still for all we are saying, don't think about the award, think about the doing a proper back-end process, a good report because you want to do a good report... Some just put more and more and more information, thinking more information is going to win you the award. (ARPC2-1).*

*Then they will fulfil certain headings purely because of the marking scheme. They need those headings purely because of the award scheme's headings. As a result, you are trying to balance these two ridiculous things. They have to do IR while they fulfilling what is required for this award (ARPC2-2).*

*This whole thing is screwed up with the [PAO1]. Somebody mentioned at the forum that day that this problem is because of the awards. Unfortunately, these corporates who want to apply for this award, and therefore they expanded it with almost unwanted stuff. That is why these are getting bigger (ARPC1-1).*

Three participants from a bank which has been awarded the best INR for two consecutive years since 2016 confirmed the above by sharing their thoughts relating to the marking scheme of IR award competitions:

*I have been telling to [mentioned the name of Chairman of REG1-1] at [PAO1], you need to come up with a very robust marking rather trying to give marks for everything and then people are trying to incorporate everything where they can get marks (B3-1).*

*[PAO1] should also recognise that, in going in to IR, that there is this requirement of conciseness and those particular awards should also be judged or marked in that particular manner, so that companies are more and more encouraged to go into IR (B3-3).*

*There are separate awards for sustainability reporting. When you coming to IR you need to bring down lot of contents in sustainability. The marker who is marking the sustainability report for the SR award may not find information as much as he wants it to be. So, he may end up giving them a lower mark. The company who's trying to apply consciousness may lose that award (B3-2).*

A writer and an academic also expressed their views towards the award competitions:

*People dressing it [annual report] up for the competition (ARW1-1).*

*Because the report is for the competition, for the award. Not for the user (ACASL1).*

Along with the marking scheme of such competitions, views regarding the report markers or judges of award competitions were also shared by different IR actors as:

*The markers play a quite a key role in this whole process (ARW1-1).*

*They are given a marketing scheme, they will look for the headings, whether sustainability is there, if then on how many pages and so on (ARPC1-1).*

*The cohesiveness of the report has to be there. If you are judging a report, you need to look at that. Not by whether there is a BM, strategy, not by ticking (MT1-1).*

*Whatever their material information to be brief, that should be the meaning of that, otherwise not in way of number of pages. That is the way I allocate marks (ACASL2).*

*For example, say governance, we have complied with all the requirements. So somebody can ask, why you all are giving all the things, why don't you give just one page saying that we comply with all the directions and regulations. But whether the reader is prepared to accept that is a question. If you do that, you will meet all the requirements, but you'll lose*

*marks or you will not get the award, because markers are looking at details of how you are complying (B3-2).*

The above excerpts indicated that PAOs, especially PAO1, is plays a key role as the reader of annual reports of Sri Lankan listed companies in their award competition.

Thus, award competitions seem to be a hurdle towards a concise report. To a larger extent, these award schemes have encouraged the reporters to include more information and publish bulky annual reports. In this scenario, companies who made an attempt to make their reports concise were discouraged to move toward the conciseness principle in IR. Supporting this view, one of the top managers in a bank uttered that:

*Award scheme may hinder you being a good example of experimentation to bring it down. May be end of the day they would have done a good job, but since they lost the award, they thought of coming back. That happens. This award scheme in one way encourages companies to do good reporting and also sadly in a certain way it holds them back (B3-2).*

Evidence is found in one of the companies in the diversified holdings sector. The senior accountant shared that:

*Last year we lost the winning opportunity due to the conciseness of our report. Again, this year, our report contained 332 pages. Simply because, stock exchange compulsorily requires I cannot exactly assure that all these guidelines are followed in our competitions. Reports should be bulky to win the competition in Sri Lanka (DH1-3).*

Their attempt of moving towards conciseness was not valued in IR award competitions. Adding more, the following participant also shared that companies may have to compromise between the awards and the size of the report:

*Otherwise you have to forget about the award and do a report and you can cut down the pages drastically by putting everything into the web. Organisation if they are prepared to go for awards, I think this bulkiness of the report will continue, because you can't avoid that happening. Otherwise you have to just forget about the awards and have a simple report and can put a summary in the annual report and if any reader wants, they can go to web and read the report. That's the way forward, I think. So, as companies we have to choose between the two. Whether, the award or a very simple report (B3-2).*

### **11.7.3 Compliance-based reporting requirements**

This discussion starts with the following quotation from a member of an ARPC:



*If you go back to the evolution of the AR, 30, 40 years back, AR was compliance document. Now it is 484 pages in 2017. After 49 years. The 298 listed companies, for vast majority, even today, AR is a compliance document. They want to disclose the bare minimum. They are not worried about what the shareholders want, and this would be to fulfil a statutory requirement, may be CSE, CBSL, Inland Revenue, whatever the regulation (ARPC1-1).*

In the findings (section 7.9 of Chapter 7), lengthy corporate reports were represented by the banking sector companies. Evidence of extensive governance disclosures were also found in section 10.3.1 in Chapter 10. Henceforth, participants from the banking industry voiced that their statutory requirements related to corporate governance led them to include more and more pages in their ARs:

*The compliance part is ever increasing. That you cannot manage. Now see corporate governance, the entire thing should be there. And we are reporting to ministries. Finance Ministry and Public Enterprise Ministry and you're supposed to provide an abundance of information to them (SB1-1).*

*Especially in the banking sector there are a lot of regulatory requirements and that take so many pages, for example even if you see the regulatory aspects, it's about 150 pages. With that the number of pages has gone up. Typically, the annual report is about 400 pages (B3-2).*

*We have to comply with the CSE, we have to comply with the CASL because especially the regulations and standards are issued by CASL (B1-2).*

*The problem here in Sri Lankan context, there are compulsory areas like good governance. It takes about 20 to 25 pages. That is the mandatory as per the Central bank regulatory requirements. Which we can't reduce otherwise we can produce a good integrated report within just say 40 pages (B1-1).*

As explained in Chapter 05, CASL has a voluntary corporate governance code, whereas the Central Bank has a compulsory corporate governance direction for banks. There, item by item banks must disclose. For other companies, the CSE has a corporate governance code, which is compulsory. Apart from that, there is another corporate governance code developed jointly by the SEC Sri Lanka and CASL, which is a voluntary code. Therefore, as far as banks are concerned, the main issue for them to follow conciseness is the availability of such lengthy mandatory reporting.

Three other IR preparers and a writer also communicated the same:

*Certain things like governance, there is no choice, but to report (IN1-2).*

*We have so much to write and really speaking, governance and risk are mandatory. Every time it is going up. Audit committee reports and all these things are very big (HT2-1).*

*Audited financial reports is the standard thing. You can't touch upon that. Almost there will be around 150 pages for that. Almost 1/3 is going for that. Then again, the compliance report again is the standard governance and compliance. That is a statutory thing you have to anyway provide. You can't reduce anything (TR1-1).*

*For example, Banking act governance disclosures come into many pages, if you put the voluntary governance codes that is another clutter with large number of pages. So in Banking sector I think it is huge (Panel session of IR workshop, participant ARW1-1).*

One of the members from ARPCs shared that all listed companies including banks tend to follow the voluntary CASL governance code seeking an award:

*CASL code is not compulsory. But invariably, all the companies following that, because they go for the award competition. Because the report goes for the competition, even though it's voluntary, they follow it and there is an extensive disclosure on all these three quotes in all the reports (ARPC 1-1).*

No matter whether voluntary or statutory, these would result in lengthy reports duplicating the same information in so many places in the AR itself.

Extensive audited financial information also caused the increase in size of ARs. When asked for the reason for such increase in their number of pages after the IR adoption, their answers were as follows:

*In AR, the financials, with this IFRS, now four to five new notes have come. You cannot manage it. It must be there otherwise you are not complying with that. That is the main issue (SB1-1).*

*With IFRS our report was too lengthy. I am also concerned about what is the value addition of this (TLC1-3).*

*If you analyse how many pages we allocate for the financial reporting and you can get the answer, because of this IFRSs and all there is a lot of disclosures (CN1-2).*

*Because of IFRS introduction, the size of the annual report increased, before that it was 200 pages and from 2012 it was about 400 pages, now the size is huge, and the reporting requirements are big (B2-1).*

From the auditor's perspective, it was stated that they have not experienced any reduction of pages conforming to the conciseness principle, rather they observed an increase in pages after IR adoption.

*I did not see any reduction of pages has happened. I would say some companies actually have started writing more. what I noticed was they have started writing and reporting more and the pages have increased. That's what I noticed (AU1-1).*

A different perception is shared by a member in a construction industry:

*We are trying to reduce, but the auditor's perspective is different. I am handling only the finance part and the financial review parts. Accounting policy duplication is also there, so these auditors are requesting all this information and the final decision is with them. So, they are not requesting to reduce, but always they are trying to add something (CN1-1).*

It was noted that the IR preparers blamed auditors due to their requirements. Notwithstanding this, the study also found that the illustrative formats provided by the auditors caused such increase in pages.

*In IFRSs, there are lot of illustrative financial statements published by the reputed audit firms. Then their illustrative format also getting higher in pages compared to the last year. Especially the number of notes. Two-three para note last year expanded into a lengthy para this year (CN1-1).*

*We have another challenge, because external auditors go through the accounts side, but now the format of the audit opinion has changed, it was previously about one page and now it is about 5 to 6 pages (B2-1).*

Though the above was confirmed by the auditor regarding their illustrative formats, they were not willing to accept the above comments from IR preparers:

*We have a format and we normally give it to our clients and again that issue comes up where in some departments they are not happy to put in that way. So, they'll keep like three separate tables. Again, it takes many pages. There are some clients who also write about it and then put the table too. They mention it in the write-up and they again explain it in the table. It's good if they can keep the table (AU1-1).*

Adding more to the above IR preparers' voice, the writer also shared assurance service providers require more details in providing assurance on non-financial information. She stated that:

*We have to work with people who are providing assurance. So sometimes we have to write because the assurance person wants it in the report (ARW1-1)*

However, it is noted that auditor as the assurance service provider for the majority of the Sri Lankan listed companies (as illustrated in section 7.7.2 in Chapter 7), while there was another assurance service provider, called DNV GL.

ACCA (2016a) also identified that national bodies such as security market regulators, financial reporting standard setters and stock exchanges can influence the extent of development of IR in their jurisdictions. Present research provides answers for the research need identified by Frías-

Aceituno et al. (2013) by discovering the influence of compliance-based requirements of several national bodies and regulators in Sri Lanka on IR adoption, particularly towards developing a concise INR.

#### **11.7.4 Conglomerates' reporting requirements**

Another barrier in achieving conciseness is the volume of reporting in a conglomerate. A Group CFO of one of the conglomerates selected for the study stated that:

*As usual, our account details become so bulky at least it goes around 100 pages...we have to report on over 12 different sectors. If we allocate at least 3 pages per sector review, the minimum number of pages will be 36...DH2 has 6 to 8 different sectors. In that sense, our report should be twice by the size of DH2, or otherwise we have to reduce the information, but that also cannot really be done (DH1-3).*

This was confirmed by an academic, a writer and a member from an ARPC as follows:

*According to their size of the company they may not be able to summarise like other companies those who are having less volume or small size companies. When we take that big companies having the different subsidiaries, their report may be somewhat bigger than the others, then how to concise. That problem is there (ACASL2).*

*For the conglomerates, very hard to do for the simple reason that they are in lot of dynamic industries where the risks are changing. With the conglomerates it's a huge challenge (ARW1-1).*

*For Banks and Diversified Holdings, concise reports are always out of the question given the statutory reporting that they have. In Diversified, may be that you have six clusters of 15% or there about contributing. You can't then say one is not material and not report on it. So then, you have to report on six clusters, it's like writing six mini reports. I think that's a huge challenge when it comes to Diversified and Banks (Panel session of IR workshop, participant ARW1-1).*

Business complexity has been identified as a barrier by ACCA (2016a) in developing a concise report.

#### **11.7.5 Disclosure of everyone's voice in a company**

Practical challenges emerged due to the uncertainty about what to report (McNally et al., 2017).

The following indicates that the need to incorporate everyone's say in the INR hinders moving towards a concise INR:

*In integrated reporting, a problem earlier we had was, everybody, when they talk about performance, everyone wants to have an elaborated writing and discussion on their areas (SB1-1).*

*Trying to encapsulate the entire things is one of the serious issues (B3-1).*

All three plantation companies selected for the study shared a similar thought saying that they need to provide all the information in their ARs:

*We have a vast area to cover, but even IR doesn't give us the opportunity or give us the room to cover all that areas (PL1-2).*

*We give all the information in the annual report itself what we have (PL2-1).*

*When you trying to reduce it in to 50 pages, you cannot give all the details (PL3-1).*

The writer shared that she never experienced any of their clients trying to cut down on clutter in their ARs:

*I have never found client who delete things. They will actually add on I would say. They feel the things they want to highlight. All the initiatives done for their hard work, they want to get highlighted in the AR (Panel session of IR workshop, participant ARW1-1).*

#### **11.7.6 Disclosure of users' needs**

The study derived the following quotes when the interviewer questioned the reasons for the increased size of annual reports even after the adoption of IR. A member from a construction sector stated that it was due to the incorporation of construction project details in their ARs:

*We are using AR as part of our business development process. And then we are focused to give information to our clients. And purposely we include some of our construction projects with photos and details (CNI-2).*

Two members in a motor sector company shared two different reasons for such increase in pages:

*We have identified from our users and we have talked to our readers and what they say is compared to other reports we don't really report on lot of KPIs. So that is why this time the number of pages increased (MT1-2).*

*Some of the page increase contributed from that business report where we decided to include more information and more elaborated discussion (MT1-3).*

Similar results were identified in the ACCA (2016a) study, where one respondent said that although the company was attempting to follow IR principles, the complexity of user expectations created difficulties for presenting a concise report.

#### **11.7.7 Disclosures of corporate management**

MT1 being a pilot programme member and B1 and MT1 both being initiators of IR in Sri Lanka in their respective companies voiced a similar opinion for the increased size of their ARs, mainly, that it was because of presenting corporate management information nowhere else but in ARs:

*Now see the director's profiles. AR is the only place we give management capabilities. And the assurance report. These all take a lot of space (MT1-1).*

*Most of the time because management has decided to publish all managers' photos, normally we publish only the corporate management, board of directors and if required the senior management. Now all the managers. Number of managers are huge. Therefore, it takes some additional pages (B1-1).*

#### **11.7.8 Disclosure of unnecessary information**

Three participants mentioned the page increase was due to the provision of unnecessary information in their reports:

*So, half of the information is icing the cake. That is the problem (HCI-1).*

*But I think most of the unnecessary information, duplicated information (CN1-1).*

*Sometimes they add pages, add pages and sometimes unnecessary information (ARPC2-1).*

Conciseness is recognised as a challenge in ACCA (2017a) when reporters want to include new information, either to meet regulatory requirements or because additional content could be helpful to readers.

#### **11.7.9 Achieving conciseness**

In order to overcome those said challenges, different IR actors have implemented and suggested several methods to achieve conciseness in their annual reporting. Eliminating duplications, changing the presentation format of the report, use of soft copies such as CDs (compact disks)

instead of hard copies of ARs, and use of cross-references and web links were identified as such methods.

By wiping out and cutting the clutter, two companies were able to reach a concise report along with its IR adoption as follows:

*We reduced the pages by removing many duplications. So, that is the one of the beauty of integrated reporting, you don't have to repeat the same thing. Repetitions have been drastically reduced, therefore space saving is there (TLC1-5).*

*We were boasting about our tea sector last year and this year it got reduced (PL3-1).*

By changing the presentation of the report, another two companies also able to reduce the number of pages in their ARs:

*The change in presentation of the report necessitated the reduction in pages this time, because we knew that the number of pages is more (MT1-1).*

*In the management reviews part, earlier we went with 2 columns. This time we are going with 3 columns. That has reduced number of pages (TR1-1).*

Relating to the presentation of the report, the use of tabular and graphical presentation was encouraged by the writer and an ARPC as well:

*There is more graphical representation and more page referencing and all (ARPC3-1).*

*Every year I think we have been able to shred some pages. Very rarely we'll been able to take a report of 100 pages down to 50 pages. No, I haven't made that kind of difference. But have you reduced the quantum every year? Yes... We teach them how to do the presentation. Sometimes I use pictures. We use diagrams a lot, they always say 1000 words. If it comes with a lot of narratives, we convert half to diagrams, we want a balance, a balance between narrative and the pictures (ARW1-1).*

Importance of soft copies over hard copies of ARs was also emphasised by a few participants, including the auditor's as well as ARPC's perceptions:

*The next issue is our preference to use hard copies. If we are able to issue our annual reports as soft copies, that will help us to maintain its conciseness (DH1-3).*

*We recommend to the clients that we have to gradually move away from this printed report and here is the superb source, the online HTML reports which you can make it interactive the way you want. But the interactive HTML reports are not yet caught on the Sri Lankan market (ARPC1-1).*

*We'll ask them to either put it in the internet or merge the information in to a one table or remove the write-up or keep the write up like one or the other like keep the table or write up. But at the end of day, it's our client's choice. We can only make suggestions (AU1-1).*

Publishing a CD rather than a big book and usage of more cross-references and web links were also suggested and implemented as ways to this conciseness:

*Now with the CDs and all, we can go for unlimited pages and we don't have to circulate this hard copies (HT1-1).*

*From hard copies, now we have CDs. That's another way of reducing plastic waste. You cannot 100% say this is the best way to reduce the pages, but there are certain ways, we have seen by putting CDs as one way (ARPC3-1)*

*We also have tried to give references, indexes, cross links (PW1-1)*

*We use different methods. Part of our annual report information, we have published in the web. If you go to this natural capital, we have a QR code, if you go to that QR code it will take you to web. And only the important part is mentioned here in the annual report and the balance part is in the web (B2-1).*

Use of cross-references (internally and externally to other reports) and making effective use of tables and diagrams and also considering how digital technology could help meet wider stakeholder information needs were identified as practical ideas to improve conciseness in the survey conducted by ACCA in 2017. Use of online reporting was identified by Solstice (2005) as a solution to voluminous hard copy reports.

However, it was commented by the participants that from their shareholders' perspective, they were not ready to go to those lengths:

*If you are going to give a CD to them [shareholders] and they ask what we are going to do with the CD (HC1-1).*

*The problem is, in our country has not developed to that era. Even we sent the CDs of the annual reports, people will ask for the hard copies. Because, our people have not very much familiar with the IT system. They are not referring them and then they are complaining why you are not given all the information in ARs (CN1-1).*

*I think we are in the premature stage there. Still we did not to go to that level. For our shareholders even we send CDs. But whenever they come to the AGM they asked for a hard copy (TR1-1).*

*If you see most of investors are pretty old and they are very traditional people. If you come to our AGM also I don't see any young crowd, all are old, and they don't get a phone and go to the URL and see it (MT1-2).*



*We have not given the cross-references within this report. We have given the sources that we got the information. We have mentioned, Central Bank report, like that. With the cross-references, it is very difficult to read. You have to go there and see what is in there (HC2-2).*

*But you cannot minimise it further saying, we have reported this in web and for further information you may refer the web or refer some link. But when it comes for the reader, it becomes cumbersome and something difficult. We tried to do it before and we had the cross reference sections linked in. But I do not think that really worked out (DH1-1).*

*I don't think there is necessary to give so many cross-references and put something in print and extended version online, I don't think it works (TLC1-5).*

While some mentioned that presentation of information both in AR and on the web is difficult from the reader's perspective, some others highlighted a practical problem of accessibility of such web-based information by readers.

The above ideas were further emphasised by one of the academics:

*To me that's still not a concise report, if you're just telling me to go look somewhere else to get a bunch of information. That to me isn't really making it concise. I don't know if you have used Cliff Notes. In, so the kids in high school when they have like their English classes, they have to read like War & Piece, and they'll get the cliff notes version which summarizes. I mean all you get is a cliff notes version. This short version that really doesn't convey the essence of the meaningfulness and if I have, it's effortful for me, clicking, depending on where you are. And if you're in a part of the world where internet isn't and there still are parts of the world where internet isn't as available or even I was limited in my internet when I was living in Denmark. I can't just blindly click on links everywhere because I have constraints, time constraints and I've got data constraints, potentially and so you're making it effortful to go get this additional information (ACAI2-2).*

Evidence for the above is found in KPMG (2017), where it was stated that in 2016, 57% of ASX 200 companies remove the Corporate Governance Statement from the annual report, replacing it with a link to where it could be found on the corporate website. However, for many, this meant that the annual report no longer contained any information on how the organisation is governed or the areas of focus of the board for the year and going forward (KPMG, 2017).

Accessibility of web-based information is pointed out as:

*But then again, the reader, can they access it is the next question. So the idea is good, but the practical application is not as successful as we thought it would be (ARPC3-1).*

*Yes, not practical. In a way we are talking about all these systems, in Sri Lanka operationalisation is the problem (HT2-1).*

One of the top management representatives of a diversified holding elaborated the above mechanisms as to how they have tried and tested them in achieving a concise report:

*As some of the test runs, if you can remember in a particular financial year, we tried to disclose sustainability as a separate book let. And the annual report as a separate one. Then in a particular financial year, I can remember we disclose very small book let with key indicators, actually with the pages of financial statements and cash flows with a very high-level description of management discussions. Thing is if we try to embrace this, one of the problems in integrated reporting there is quite a heap of information we search for. But most of the shareholders and even analysts were really not happy about that. Anyway they can access it in website. But they were asking the hard copy. We actually sent a questionnaire about this thing, but not positive feedback was received. Therefore, in next year we had to send them the big book (Panel session of IR workshop, participant DH2-1).*

Confirming the above idea, one of the CFOs in an early IR-adopting bank stated that:

*The problem here in Sri Lankan context, is the mandatory minimum disclosures as per CASL, CBSL, CSE and other regulatory requirements...otherwise we can produce a good integrated report within just say 40 pages. Purely with indexes (B1-1).*

Opposing views for such separate reports were reflected by a member in another bank and an academic as well. They highlighted the importance of a one report including everything:

*We don't want to produce separate reports like one integrated and all that. Because then again the message is not clear, unless you have integrated within the report only you can see the benefits (B3-2).*

*The report should be user friendly. One part is in the hard copy of the report, then other part is in some other reference pages, then people may not motivate to read that. Whatever the things to be given in a one report is the best way. Hard copy or electronic way, one report rather than giving different different links (ACASL2).*

Flower (2015) also supported the above opposing views arguing that this represents a highly significant retreat on the IIRC's part; the integrated report loses its status as the organisation's primary report; it becomes simply another report, adding to the clutter of reports which the IIRC so graphically condemned in its Discussion Paper published in 2011. He further claimed that the IIRC finally appreciated the incompatibility of the single report with the principle of conciseness and it is inevitable for an INR to be concise, since much of the information must be presented in other reports. The danger of drowning readers in data in websites was addressed by Solstice (2005).

Yet, “better use of technology is the next step in IR journey” said one of the participants in ACCA (2018a), claiming that technology is one area of experimentation among IR preparers as to the extent to which they use new technology to enhance their IR.

From the present study results, it was found that conciseness is possible in the Sri Lankan context if it is initiated by the regulators, linked to IR award competitions and directors are made responsible for what is written there instead of the managers.

Four participants mentioned that steps to achieve conciseness should be initiated by the regulators:

*But first, it should be come through the chartered institute (DH1-3).*

*The use of technology has been the issue. Because the ACCA award accept web reports. But Institute of charters Accountants accept only the hard copies. That's the point us to starts with (ARW1-1).*

*If the guidance come from the Chartered institute, then everyone will accept. But, they ask hard copies. They are asking to reduce everything, but they are asking hard copies. CDs less cost. Why they can't use CDs. Something somewhere is wrong (PW1-2).*

*It will be very beneficial if the regulator does that. If they do allow that or if CSE allows the companies to have it in their web rather than having it in the annual report, then we have to change that itself (IN1-2).*

Merging the conciseness principle with the IR awards and changing the rules of IR award competitions accordingly were also found influential in achieving conciseness:

*I think there need to be a change in the awards' rules. [laugh in the audience] and that is why everything comes in hard copies. So, things like detail governance reports, detail risk reports, detail sustainability reports, can all be posted conveniently online. But they are being presented as hard copy reports because of the different award programmes that require things in hard copies (Panel session of IR workshop, participant ARW1-1).*

*If you are doing it for the sake of compliance, just do the bear minimum and say that is complied. And wherever possible, report it to the web site. I think given the competition, look at the real usefulness of the report rather than blindly rewarding any number of disclosures. For accounting disclosures, yes, because they are mandatory. For other disclosures, I think you need to go back to principles (MT1-1).*

*I told particularly the Institute itself has the IR Council and then they have the award. Then I said come on, you really have to match these up. There are some blockades. If you go to a local report, you'll find that there is a Corporate Governance report and a separate report called the report of Directors. This is an easy combination, let's do this (ARW1-1).*

Taking the above ARW's view forward and based on the discussion of what caused the increased report size in the Sri Lankan context, it was found that the majority's attention was placed on regulators. Importantly, it was highlighted that regulators have to play a key role in mitigating the reasons which caused such increase in report size, particularly regarding the impact of compliance-based reporting requirements and regulations of award competitions on the report size. In this scenario, although regulators were held responsible by many IR practitioners and the writer, one of the audience participants in the IR panel session who was representing the national regulatory body as the Vice President uttered a contradictory view:

*This is a misconception about the accounting principles nothing mandatory. If you read that very carefully it talks about relevance and materiality. Problem in accounting is that the regulators have driven the mandatory. It's not the standards. I do not necessarily agree with you with conciseness is in the sense, yes Central Bank has put out the governance code. Why do people recopy what the central bank thing in the annual report? All you need to know is what has been compiled and what has not been complied. I'm sure people can go to websites and pick out the information. It is again misinterpretation of how these things have come about. If you have complied with the section, you do not have to reproduce and say you have complied. I think people are misreading that thing. Regulatory does not say that it has to be in verbatim (Panel session of IR workshop, audience participant 1).*

This discussion was a controversial topic in the 'Panel Session of IR Workshop' held in CASL. Even though the above participant tried to emphasise that regulators do not require companies to reproduce the same compliance-based disclosures if they have complied, the ARW kept arguing that regulators require such disclosures:

*I think the regulators expects, I think it's something we have explored, discussed and got even people opinion. You have to say how you have complied [mentioned the name of Vice President of PAOI]. According to what aspects given by the clients, they want you to put how they are complied. So companies produce the same thing. I'm reasonably certain that the companies are expected to disclose the same thing (Panel session of IR workshop, participant ARW1-1).*

Meanwhile, one of the other panellists supported the argument with an assenting view as:

*I think it is not in verbatim. But, that's true with the CBSL directions. CBSL directions on governance, yes, we have got to reproduce and give the extent of compliance, but that is not case with, for example CSE governance. CSE governance, they have allowed you to make an affirmative statement that you are complied with the exceptions. If there is any you can say these are not complied with. But that is not the case with CBSL direction on Banks (Panel session of IR workshop, participant ARPC1-1).*

Hence, this is the initial way forward that different IR actors should look at in the Sri Lankan context. This requires connecting different IR actors, such as practitioners, auditors and regulators (standard setters such as PAOs, CSE, CBSL, etc.), and joining hands towards a concise report. One of the panellists in the IR workshop voiced the need of such:

*It has to be a joined exercise with the regulators, because there are certain regulatory requirements. All of us to have to get together and then decide on this concise report, I mean if that is to be the regulatory report. But at the moment the statutory reports have to have all these disclosures (Panel session of IR workshop, participant ARPC1-1).*

Confirming these, ACCA (2016b) drew out that the IR framework could be more influential and useful if supported by more promotion and education at a national level, such as professional accountancy bodies or organisations representing shareholders and investors. Thus, CASL as the national accounting body, other professional accounting bodies such as ACCA, CIMA and CMA, IRC SL as the governance body and CSE as an organisation representing shareholders and investors can be positioned together for the potential for IR in Sri Lanka.

Even with such collaboration, some mentioned that companies should be ready to step forward with the first move towards publishing web-based information.

*Sri Lanka at this moment, we should have the courage to put that into websites and all that become relevant (Panel session of IR workshop, participant REG1-1).*

*When you are putting an extract in the actual reporting and then you have rest of the information online or whatever. But now everybody is scared to take a chance on that. Because suddenly if the Central bank say you haven't fulfilled the requirement, and no corporate secretaries are going to take that chance (ARPC2-1).*

*We are trying innovative structures, but sometime if you are first move, you don't want to take the risk. We have to have the clients who are willing to take the risk also. Because they are not in tested formats (Panel session of IR workshop, participant ARW1-1).*

In addition to these means, one of the panel members stressed the point below that everybody in the organisation should be driven by the thinking that AR is the report of the directors and directors must take responsibility for this report. As stated in Stubbs et al. (2014), the liability of directors for the disclosures within an integrated report was appeared to be of more concern in Australia as well. Governance responsibility for the INR was identified as a challenge in ACCA (2018a) which discovered reporting practices of organisations in the IIRC Business Network. Board involvement in the IR process was found as a challenge in ACCA (2018a) and one of the participants there

stated that “the annual report is the responsibility of the board of directors” (ACCA, 2018a, p. 12). Confirming this, a panel member in the present study said:

*According to our Company's Act, those who are responsible for the annual report are directors. When you put the directors' lens and then you write thinking about the directors' liability for every word that is written, I think you can make a very concise report. What happens is it's the management that take the responsible for what is written and actually I think there are directors who believe that their responsibility is to confine in to those few pages that they sign off saying 'Annual report of the board of directors'. Which is a fallacy. They are responsible for every report, every word in the report. When you put that into context, yes, making the report concise, should be driven by the directors. Because every word is liability (Panel session of IR workshop, participant ARW1-1).*

As put forward by above respondent, the director liability concerns and sign-off fatigue were reflected as matters under considerations in the IR framework revision programme launched in February 2020. In IIRC (2020a) it is stated that paragraph 1.20 of IIRF has seen limited uptake in most jurisdictions. Paragraph 1.20 of section 1G declares the responsibility for an integrated report and it requires a statement of responsibility for the integrated report from those charged with governance. With the topic paper 1 of the IR framework revision, IIRC invited feedback on a proposed plan for Section 1G of the IIRF under three proposals as A, B and C (IIRC, 2020a).

### **11.8 Assurance as a challenge in IR**

Organisations increasingly seek to substantiate their credibility and reliability through the voluntary provision of independent external assurance on IR (ACCA, 2015; Dumitru & Guse, 2016; IIRC, 2015a; Miller et al., 2017; Reimsbach, Hahn, Gurturk, 2018; Rodrigues & Morais, 2019; Simnett & Huggins, 2015). One of the interviewees highlighted that:

*There is a responsibility to assure the content to confirm the going concern. Not only the financial means, non-financials also. Isn't it? That's the management audit part (B1-1).*

From a perspective of an academic, the following was shared:

*Auditing and assurance are two different types of exercises, it's very different, right. And who is driving, what is being examined is different. In the assurance it's voluntary, whatever management wants to have an assurance, it is assured. Whereas in a financial statement. The auditor comes in, and the auditor is driving the audit, not management. In assurances, nothing has come to our attention that has caused us to disbelieve what management says. I mean supposedly the auditor's post is looking at things that are material in discussions with management, but it's still so subjective it's not like the financial statement the auditor comes in and says. And you can't assure the stuff outside of the*

*financial statements to the same level that you can in financial statements. You can't get to the same level (ACAI2).*

However, the present study also found that the decision to assure the annual report depends on the IR award competitions. For example, it was stated that:

*Assurance is necessary when you go for the awards, external assurance will get an extra point (ARPC2-1).*

*Most of our clients are taking this assurance because of awards or their reputation (AUI-1).*

*If the purpose of the information is for the competition no assurance is needed. If the purpose is to provide the information to the users, assurance is needed. That's how I believe (ACASL1).*

INR shows the financial and non-financial performance in a one report. As the independent audit assurance is obtained for the financial information, the non-financial information is also said to be assured with a same emphasis:

*I think who ever who comes may give the same emphasis you give for financial information should be given for non-monetised qualitative information too. Which is important because then only the credibility exist in assurance (MT1-1).*

The IIRC (2013c & 2015a) summarise significant issues emerging from the debate which IIRC initiated about trust and credibility regarding IR, with a focus on the role of independent assurance in IR.

Following the decision to assure IR, 'who should provide assurance for IR' was the next issue. A company should decide whether to engage a professional accounting firm or a non-audit company (Velte & Stawinoga, 2017). Different perceptions were shared among different participants as to who should provide assurance on IR:

*Assurance should be from the company and company should have a correct mechanism to do these things (B2-1).*

*I guess it will be ideal if there could be government body plus a private body that could give this (ARPC3-1).*

*Assurance is something we should leave in the IR Council of CA for action (Panel session of IR workshop, participant REG1-1).*

*If the institute comes up, there may be lot of members who would like to do it (MT1-1).*

The credibility of such assurance providers, particularly the auditors' role in implementing third-party assurance in IR, was addressed by several researches (Briem & Wald, 2018; Haji & Anifowose, 2016a; Maroun, 2017 & 2018). Supporting the above, the interviewees shared that:

*Do we have an assurance provider in the country? We don't and we always go to some other country and get there help to get an assurance, like DNV (B3-2).*

*In term of assurance we can have auditors themselves doing it as part of their audit (ARPC2-1).*

*It should be a part of the external auditor (B1-1).*

*At the moment we find that there are some assurance service providers as well as this audit firms are doing that. Because what we found in most of the cases is that, auditors who provide audit service themselves provide the assurance for non-financials also. So how independent they are may have question marks. Whether that is a sort of a value adding service that they provide is a doubt (ARPC1-1).*

The involvement of auditors in the assurance process may also have the possible effect of encouraging standardisation of reporting practices in IR (ACCA, 2016b). Having assurance from the external auditors is important to promote public trust (ACCA, 2018a). However, one of the audience participants in the IR workshop shared similar thoughts as ARPC1 above, raising the issue of the reliability of non-financial disclosures:

*If the assurance need is there, this requires certain independent assurance been given on what is being reported. So here the issue is there is financial and non-financial information embedded in these reports. So the financial part to some extent is covered with the numbers, the non-financial part is at a bit of a problem. Because most annual reports which have lot of non-financial information. They report numbers, they report customer numbers, all sorts of things. But whether they are accurate or whether they are reasonable has to find out (Panel session of IR workshop, audience participant 1).*

But one of the panel members in IR workshop voiced that:

*When we work with AU1, they practice on sustainability assurance, they check the process for producing those numbers and all of that. So there they do a thorough check (Panel session of IR workshop, participant ARW1-1).*

The auditor's view is important in this regard:

*We don't do IR assurance. We are actually doing assurance for SR. As few of clients already asked whether we can provide an assurance on integrated reporting. We need a*



*proper guideline to provide an assurance. The issue with integrated reporting is we only have a framework. So based on a framework you can't provide an assurance. Because the framework doesn't clearly say what exactly you have to report. It only says you have to cover this and that. So that is the reason why we can't give an IR assurance. That's why we are only focusing on sustainability (AU1-1).*

According to the auditor's perspective, 'a limited sustainability assurance' is given when assuring non-financial information which is particularly linked to GRI. The auditor said:

*We can't assure whether the information contained is 100% correct. Even in our audits also you can't say it's 100% because we are giving a limited assurance. There could be incorrect information which we haven't come across (AU1-1).*

Contrary to this, IIRC (2020c) stated that for the first time, some companies have sought 'reasonable' assurance on aspects of their integrated report, a step up from the 'limited' assurance that companies usually seek on their non-financial reporting.

Following the issue of who should provide assurance, what aspects such IR assurance should be provided was another concern by study respondents.

*There should be a common guideline to do IR assurance (ACASL2).*

*We have only done GRI assurance. There are few other guidelines, for example AA1000. But mostly we are focusing on GRI (AU1-1).*

*They [assurance providers] do under GRI and under ISAE3000 they have given their opinion (Panel session of IR workshop, audience participant 1).*

One of the academics brought international examples of combined assurance which address the issues of what aspects IR assurance should be provided:

*It's an internal assurance so they tell me where they've got external assurance with internal auditors' word, what the systems and processes are. So it's called combined assurance. It's really a report by management telling us as to why we should believe that. In the UK it's in the form of the report of the audit committee. In South Africa, they have as a regulatory process under the corporate governance code of conduct. They have to do a combined assurance report, where they're encouraged to do it. And nearly everybody does a combined assurance report (ACAI1).*

Similarly, ACCA (2018a) claimed that the subject matter and scope of assurance differ greatly, ranging from limited assurance on specific metrics to a broader review of the overall report's compliance with IIRF.

Although the IIRC recommends independent assurance as part of IR quality management (IIRC, 2015a), a specific IR assurance standard is not available so far (Velte & Stawinoga, 2017). The AA1000 Assurance Standard (AA1000AS) launched in 2008 by AccountAbility and the International Audit Assurance Standards Board's (IAASB) International Standard on Assurance Engagements (ISAE 3000) are considered as the two most widely used frameworks for non-financial assurance (Velte & Stawinoga, 2017). In addition, IAASB published a report in 2015 exploring assurance on IR while identifying 10 key challenges for assurance engagements (IAASB, 2015) and in 2016, IAASB published two documents, a discussion paper (supporting credibility and trust in emerging forms of external reporting with 10 key challenges for assurance engagements) and a supplemental information to the IR Working Group (IRWG) to overcome those challenges and support credibility and trust in IR (IAASB, 2016a & 2016b). In 2019, IAASB released a publication on "Guidance on Key Challenges in Assurance Engagements Over Extended External Reporting (EER)" (IAASB, 2019). Watson and Locatelli (2017) provided integrated assurance across the three lines of defence.

The absence of suitable criteria appears to be the most significant obstacle to assurance of the integrated report, more so than the risk of auditor liability (ACCA, 2015). To increase the reliability of IR assurance, the implementation of a specific international audit standard seems to be necessary (Goicoechea, Gómez-Bezares and Ugarte, 2019; Velte & Stawinoga, 2017). The need of an IR assurance standard along with a monitoring system was voiced among study respondents as follows:

*Problem is currently there are certain standards giving assurance based on several parameters. Whatever reported relating to assurance should come within that framework, unless we developed another framework to address IR, which has not happened, but happening now (Panel session of IR workshop, audience participant 1).*

*There should be regulation, rather than making it a requirement that you get assurance. That is not going to help. There has to be some kind of a monitoring mechanism. Supervisory or regulatory arrangement or body that will supervise these so-called assurance providers. Then that might help (ARPC1-1).*

*I know that IIRC is seriously looking at assurance, maybe they will come up with something (MT1-1).*

*Why those who are in integrated reporting council does not develop this kind of a guideline? Once they introduced that reporting that is their duty to introduce controlling mechanism as well (ACASL2).*

*[Mentioning the name of Vice President of PAO] Is there any audit standard developed prior, that's what they were saying. At the IIRC conference in Amsterdam last year, they were mentioning about an assurance standard. I think IAASB is developing a standard together with IIRC and IFAC. They said it is expected to come up this year (Panel session of IR workshop, participant ARW1-1).*

As stated by ARW1 above, the IAASB is currently looking at the issue. However, it is noted that they are working on a project aiming to enable more consistent and appropriate application of ISAE 3000 (Revised) to emerging forms of extended external reporting (EER) and greater trust in the resulting assurance reports by users of EER (IRC SA, 2020). As in IRC SA (2020), Phase 1 of the project has been completed, and the IAASB has issued “Extended External Reporting (EER) Assurance – IAASB Consultation Paper (February 2019)”. Phase 2 will be included in an exposure draft of the guidance, together with the phase 1 guidance (that will already have been commented on), to be issued in early 2020 (IRC SA, 2020). The final guidance as an exposure draft is expected to be issued in late 2020, including how to apply ISAE 3000 (Revised) to EER assurance engagements. This is further reflected as ‘Emerging standards’ in the topic paper 3 of the IIRF revision programme commenced on February 2020 (IIRC, 2020c) and that could be the one which is referred by the participant ARW1 above. With this topic paper, IIRF intends to revise the two paragraphs 3.40 and 3.42 which touch on the topic of assurance.

Finally, the study extracts one of the interview quotations from the study sample which called for a revision of IIRF when this interview process was carried out in 2018 (from February to July):

*I think we have to revise the guidelines (CN1-1).*

And now the revision process has already started calling for feedback in February 2020.

## **11.9 Chapter summary**

The aim of this chapter was to identify issues experienced by IR practitioners and other different IR actors, specifically in relation to implementation of IR, preparation of INR, IR framework and its components, value relevancy of IR, and achieving credibility and conciseness in integrated reports. The study expects that these findings could be useful for report preparers to develop integrated reports and also for other IR actors (standard setters, regulators, professional accounting bodies, auditors, academics) to improve IR as the norm of corporate reporting through greater application of IR principles even more effectively.

The next chapter presents the conclusion for the present study.

## **Chapter 12**

### **Conclusion**

#### **12.1 Chapter introduction**

This chapter summarises the findings of the present study. A brief overview of the present research is provided in section 12.2. Section 12.3 summarises the research approach adopted in this study. Section 12.4 presents the key findings. Contribution of the research is explained in section 12.5 under sub-sections, namely, theoretical, methodological and practical contribution. Section 12.6 encapsulates research implications for practitioners, policy makers, regulators, standard setters, academics, professionals and all other readers. Research limitations are described in section 12.7. Section 12.8 proposes future research directions.

#### **12.2 Research overview**

This research investigated the IR of the Public Listed Companies (PLCs) in the CSE in Sri Lanka as an exploratory study. IR has rapidly gained and continues to gain significant attention from many researchers since the launch of the IIRC in 2010 (de Villiers et al, 2014; Haji & Hossain, 2016b). Despite the increasing recognition received for IR, scholars have claimed that empirical evidence on adoption of IR is scarce (Barth et al., 2017; Dumay et al., 2016; Jensen & Berg, 2012; Stubbs & Higgins, 2014) and there is a paucity of research in disclosure-based IR research (Liu et al., 2018; Setia et al., 2015; Stent & Dowler, 2015).

#### **12.3 Research approach**

Sri Lanka has a well-established accounting infrastructure contributing to strengthen the accounting profession and accelerating and facilitating the national economy of Sri Lanka, comprising the Registrar of Companies, the Securities and Exchange Commission of Sri Lanka, the CSE, the Institute of Chartered Accountants of Sri Lanka (CASL) and other PAOs (Professional Accounting Organisations). Providing leadership to the accounting profession in Sri Lanka and as the national PAO in the country, CASL has the sole authority to formulate Accounting and Auditing Standards in Sri Lanka which are mandatory for all PLCs enacted under the Companies Act of 2007 and listed on the CSE. The Council of CASL has launched the

Integrated Reporting Council in Sri Lanka (IRC SL) as the first IRC in all of Asia with a key objective of promoting inclusive and concise corporate reporting in Sri Lanka. Still, there is no mandatory requirement to produce integrated reports in Sri Lanka.

The present research intends to provide an in-depth understanding of IR in Sri Lanka as an exploratory study. Four research questions were derived to explore the IR in Sri Lanka:

1. What is the extent and nature of IR disclosures published by the Sri Lankan publicly listed companies (PLCs)?
2. What motivates Sri Lankan listed companies to voluntarily publish integrated reports?
3. How do IR and integrated thinking foster each other in Sri Lankan PLCs?
4. What challenges do Sri Lankan PLCs encounter in the voluntary adoption of IR?

In order to address the stated research questions, this research adopted a qualitative methodological approach based on triangulated data collection methods, comprising a documentation review of corporate reports and semi-structured interviews. There were 295 listed companies in CSE as at the beginning of data collection for this research (in 2017). The study's sample framework consisted of 34 companies which adopted IR in 2014 as timely adopters. The corporate reports reviewed in the present study were from 2010 to 2016. This time period encapsulated the two captions 'before' and 'after' the incorporation of the IR framework to explore the developments in corporate reporting and IR disclosures of the sample companies. Thus, the total number of reports reviewed for this study was 238. For each of the 238 corporate reports reviewed, the researcher rated the quality of reporting using a content analysis against each aspect of the IIRF, encompassing seven guiding principles (GPs), eight content elements (CEs) and three fundamental concepts based on the disclosure index consisting of 150 individual disclosure items. To substantiate the report's review results, semi-structured interviews were conducted with 62 interviewees representing IR practitioners and other various IR actors to obtain their perceptions, insights and experiences on IR practice in Sri Lanka. Thematic content analysis was used to analyse the qualitative interview data which have been organised using NVivo software.

## 12.4 Key findings

The story of IR in Sri Lanka flows through five chapters answering the four research questions.

This study provides insightful evidence of the growing trend of IR adoption in Sri Lanka. Findings disclosed a steady growth of IR adoption by listed corporates in the country. In 2013, there were 17 companies embracing IR and this number doubled to 34 companies by 2014. The increasing number of IR-adopting companies reached 62 by 2016. Two Sri Lankan companies have been preparing integrated reports since 2011. This proves that the reception of IR by Sri Lankan listed companies has gone beyond the early adoption stage to a developmental stage of IR. On its path to reaching maturity of IR in Sri Lanka, the increasing number of companies with the timely adopters and late adopters, IR has now become a market trend in the country.

The IR framework fills an important vacuum by bridging the gap between financial and non-financial capitals and promotes the importance of non-financial capitals, such as human, social and relationship, intellectual and natural capital, together with financial and manufacturing capitals. Therefore, it is important to look at the extent to which Sri Lankan companies are using the framework at a national level. Following IR adoption, the progress in terms of the number of companies adopting the IR framework has also gained momentum over the seven-year period by the Sri Lankan listed companies. This shows that companies are increasingly aligning their corporate reporting practices with existing IR guidelines. Preceding the release of the IR framework (IIRF) issued by the IIRC in December 2013, some PLCs had used SMART IR methodology in implementing IR in their organisations. The reason may be that their approach to value creation and capital formation evolved long before the term 'IR' was introduced. However, the findings showed a decreasing trend of adopting such methodologies other than the IR framework by 2016. It was also interesting to see that some PLCs (with an increasing trend over seven years) used no framework but adopted IR and prepared integrated reports. The interview findings highlighted that the lack of knowledge on IIRF as well as IIRC has led them towards such non-disclosures.

Findings also revealed that the concepts of integrated reporting are widely accepted and embraced by PLCS in Sri Lanka. Notably, there was a growing understanding of value creation, multi-capitals and value creation model set out in the IR framework. It is highlighted that following the

IIRF implementation, IR has gained increased importance in the context of communicating the corporate value creation of the Sri Lankan companies. Interviewee details and the report review findings highlighted the significance of the value creation concept in IR, which emphasises the value creation for the organisation as well as for its stakeholders in the short, medium and long term. Therefore, IR has enhanced the way Sri Lankan organisations think, plan and report their value creation story. This is further demonstrated through the enhanced recognition and reporting of the multi-capitals concept by PLCs. Sri Lankan PLCs have also provided greater analysis of capitals since 2014, in terms of number and type of capitals disclosed in their corporate reports.

Despite these initiatives in reporting practices in Sri Lanka, most companies failed to grasp the purpose of IR because of the length of corporate reports.

Next, the present research addressed the rationale behind this move towards IR as to who or what has driven the tendency to adopt IR in Sri Lanka. The study adopted an institutional theory approach through institutional isomorphism and isopraxis to examine the external and internal motives that drive the voluntary decision to adopt IR. External drivers were explored through coercive, mimetic and normative isomorphism, whereas internal drivers were examined under isopraxis. Thus, influence from IIRC or IRC SL, influence through the organisational adoption of sustainability reporting (GRI as a supporting organisation which exerts coercive pressure), influence from parent company and influence from stakeholders have been categorised as coercive pressures which persuaded the IR adoption in Sri Lanka.

The influence of the IIRC through the pilot programme held in 2011 was examined as coercive isomorphism on one of the early adopters of IR in Sri Lanka. Though there is an IR council established in Sri Lanka (as IRC SL), as Asia's first IRC, interviewees were silent, unaware and uncertain of the existence of such a governing body, resulting in no coercive pressure from IRC SL. However, IRC SL is initiated by the Council of CASL. Therefore, a subtle pressure is identified from IRC SL through the influence of CASL. The pressure from CASL, as the national professional body for accountancy, is considered as a normative isomorphism. Hence, the influence from the professional bodies (CASL, CMA SL, CIMA and ACCA Sri Lanka), influence from IR awards (organised by CASL and CMA Sri Lanka), and the influence from auditors are considered to appear with this normative isomorphism. Interviewees, especially IR practitioners,



voiced that they have participated in the discussions, workshops, seminars conducted by the professional accounting organisations where Sri Lanka was sensitised very early, followed by the IIRF proclamation. In this scenario, CASL was found playing a key role in promoting IR through the influence of its members who were employed in the top level as well as middle level and through auditors. The study also found that annual report producing companies (ARPCs) who assist listed companies to prepare their year-end corporate reports also influence the IR adoption decision as a normative pressure. The pressure from competition, the influence of the bandwagon effect through the role model organisations or leaders of IR in Sri Lanka, global trend, corporate image and recognition are found to have a mimetic pressure on the decision to adopt IR by companies. However, the interviewees also indicated that except for few Sri Lankan companies who demonstrated as the role model organisations and leaders in IR in Sri Lanka and who established the real momentum to embrace the integrated thinking behind these new reporting practices, others have strived to compete with others in seeking an award. Except for external motives, personal motivation for IR, internal leaders for IR, availability of in-house champion for IR and top management support are found as internal motives that persuade Sri Lankan PLCs towards IR adoption. In the top management support, CFOs were found to play a leading role in the transition to IR.

Addressing the third research question, the present study analysed the interview data across three main thematic areas as to how IR and INT have been internalised in the Sri Lankan business environment, how IR practitioners and other different IR actors (academics, auditors, regulators, professional organisations, annual report producing companies and annual report writers) interpret IR and integrated thinking, and how these different IR actors perceive the relationship between the two concepts of IR and INT, to highlight the key differences between the IIRC's expectation (as well as in other publications, such as IIRC's partner/member organisations) of INT and IR, and to explore how different IR actors interpret and embrace these concepts.

Although IIRC's mission is to establish integrated reporting and thinking within mainstream business practice as the corporate reporting norm in the public and private sectors, it is not apparent that the core integrated thinking concept is either clear enough or well developed enough in Sri Lankan practice to realize IIRC's mission and vision in the 21<sup>st</sup> century. Contributing to the

growing IR literature, this study also affirms that there has been relatively little targeted exploration of the INT concept despite the ongoing centrality of integrated thinking to IR.

Interviewees found difficulty in understanding the definition provided by IIRC in IR framework for the INT. None of the IR-practicing PLCs looked at INT from the perspective that has been laid out in the IR framework. Integrated thinking is a concept that report preparers and other IR actors in Sri Lanka find confusing too because of the availability of different definitions based on different perceptions of participants. Hence, the study found hybrid definitions and approaches in practice. Interview details evidenced that INT is viewed based on the multiple capitals. Such importance is evinced through the conceptual framework proposed in the present study (in Chapter 4) in order to conceptualise INT in practice through a stakeholder approach to multi-capital management.

While some companies revealed that they already had INT when they moved into IR, some others disclosed that they moved into INT through IR. Hence, it was evidenced that though the IR concept has penetrated the reporting agenda of Sri Lankan corporates, the concept of INT is still ambiguous to many of the IR actors in Sri Lanka. On the other hand, a few organisations which were producing good integrated reports had travelled some way on the journey to embrace integrated thinking, having a strong awareness of the concept of integrated thinking.

It is also notable that integrated thinking is seen as an important aspect of IR among different IR actors in Sri Lanka. In communicating the value creation story, these PLCs were already practicing integrated thinking in a meaningful way. Having identified the importance of INT, IR and INT are seen as the perfect marriage to address companies' value creation process which goes beyond articulating conventional financial information. INT considers the connectivity and interdependencies between several factors that affect an organisation's ability to create value over time. Thus, despite the practitioners, other IR actors such as academics, PABs and ARPCs also urged corporates to practice INT.

Although Sri Lankan PLCs found moving in their path to reach maturity with the increasing trend for IR, maturity in INT had not been reached in Sri Lanka. The study noted that many sample companies remained dubious in embracing INT at the management and board level decisions and discussions. Top management support is highlighted as an essential aspect in this regard because

mature INT leads to better decision-making within the organisation which can be implemented through the connectivity of the IR process. From the views of top management, ARPCS and writers, a change in the mindset of practitioners is required to embed INT while driving IR forward.

The present study explored the extent and nature of the IR disclosure practices of Sri Lankan PLCs based on the study sample of 34 timely IR adopters. The analysis was based on the disclosure index prepared for the study based on IIRF over the seven years from 2010 to 2016, with a total of 238 reports reviewed. The average frequency analysis determined the score values for the year-wise analysis and individual item-wise analysis of seven guiding principles (GPs) and eight content elements (CEs) over the seven years. These results are presented under two different categories as banking and non-banking sector and as the overall behaviour as well.

In GPs analysis of banking sector, the stakeholder relationship (GP3) and materiality (GP4) recorded the highest frequencies from 2014 onwards, reaching a higher level of disclosures. Throughout the period of 2010 to 2016, the 17 banking sector PLCs (from 37% to 70%) and 17 non-banking sector PLCs (from 38% to 65%) were able to progress from a lower level of IR disclosures to a moderate level of IR disclosures relating to the seven guiding principles.

The overall year-wise disclosure of GPs shows that throughout the seven-year period, Sri Lankan companies achieved the status of being highly vigilant to the disclosures relating to stakeholder relationships (GP3), then strategic focus and future orientation (GP1) and consistency and comparability (GP7), materiality (GP4), followed by connectivity of information (GP2), reliability and completeness (GP06) and conciseness (GP05) as last of all.

The average frequency analysis of each GP derived from the item-wise analysis over the seven years resulted in a total moderate average index score of 51.7% for the seven GPs over the seven years by the Sri Lankan publicly listed companies. This analysis found none of the GPs achieving the high disclosure status, regardless of the two different sectors. Out of seven GPs, a moderate level of responsiveness was shown by four guiding principles, namely, GP7 consistency and comparability (68.6%) recording the highest scores which was then followed by GP1 strategic focus and future orientation (62.6%), GP3 stakeholder relationships (56.2%), GP4 materiality (52.1%). Subsequently, lower frequencies occurred on GP2 connectivity of information (48%), GP6 reliability and completeness (44.5%) and lastly GP5 conciseness (29.5%).

The results of the analysis of the content elements showed that the reporting disclosures of 17 banking sector companies were superior to 17 non-banking sector companies in terms of their level of adoption of CEs over the seven-year period. Based on the item-wise disclosure scores for each content element over seven years by 34 IR adopters, the most information was disclosed for governance (CE2), reaching a high level of adherence. It was followed by the moderate level disclosures for seven other CEs, basis of preparation and presentation (CE8), performance (CE6), organisational overview and external environment (CE1), risks and opportunities (CE4), outlook (CE7) and business model (CE3). The least was disclosed for strategy and resource allocation (CE5). All 34 companies performed relatively well on reporting financial and manufacturing capital but variously on the other four capitals. In terms of the overall disclosures of human, natural capital and social and relationship capital were significantly high across the sample companies. Intellectual capital was found as the least reported capital. It was also seen that while many companies used framework terminology to report that their value creation is structured around the six capitals, some used different approaches that best suited them in explaining their value creation story.

Therefore, the study observed a learning process towards integration of guiding principles, content elements and multiple capitals in their process of creating sustainable value in the short, medium and long term by aligning with the IR framework, thus predicting a tendency to fulfil maximum disclosures relating to the IR framework in coming years.

Finally, the study explored challenges faced by the IR practitioners and other IR actors in Sri Lanka in relation to their adoption of IR and application of IR, which are broadly categorised as challenges and barriers in IR implementation, issues in preparing integrated reports, criticisms and issues related to the IR framework and its three fundamental concepts, issues pertaining to the value relevancy of IR in terms of its lack of capital market orientation, challenges and difficulties in preparing a concise integrated report and challenges on the external assurance of IR. Most of these challenges in IR appeared surmountable to overcome. The interview findings highlighted lack of understanding on IR, lack of support from top management, employee resistance, and lack of expert staff to carry out IR as implementation challenges to adopt and practice IR. It was also noted that the lack of support from top management and the change in the top management had led two companies to cease practicing IR. Cost, time and the amount of workload in IR were also

evidenced as implementation challenges. Barriers in preparing the first INR, issues in obtaining information for INRs, and difficulties of verifying non-financial information were seen by most respondents as practical challenges in preparing their INRs.

Interviewees emphasised and criticised lack of awareness in IIRF, non-availability of proper guidance through IIRF, lack of integration between IR and SR and lack of focus on ethical leadership and governance as challenges and issues elicited in the IR framework. Connectivity of information and consistency and comparability were found to be difficult in complying with the guiding principles of IIRF. In addition, issues related to the primacy of shareholder interest, capitals and capital trade-offs and business model were stressed by the participants as issues in the fundamental concepts of IR. It was also evident that interviewees found no association between disclosures of IR and capital market orientation leading to a challenge of value relevancy of IR in Sri Lanka.

With the evolving trend for IR in Sri Lanka, the assurance factor on IR also seemed to evolve alongside the practice of IR itself. In terms of independent external assurance, questions of why such assurance, who should provide assurance, and what is the basis for such assurance were ascertained as challenging for the study respondents. This was highlighted to substantiate the credibility and reliability of voluntary provision of independent external assurance. Hence, for the development of assurance of IR, a lot of improvement needs to be done both from the assurance providers' perspective and preparers' perspective.

Report size was noted as a challenge by both practitioners and other IR actors. Interviewees shared their perceptions in inclusiveness through materiality and conciseness of an INR. IR awards appeared as a barrier to produce a concise report. Compliance-based reporting requirements based on national regulations and international initiatives and conglomerates' reporting requirements were considered as barriers for conciseness. Further, the disclosures of everyone's voice, users' needs, corporate management information and unnecessary information were seen as challenges in achieving conciseness. To achieve conciseness, interview findings also found that it should be initiated by regulators, yet should be attained collectively, and also companies should made directors responsible for their INRs.

IR is a long journey. By 2016, the study identified that IR practice in Sri Lankan PLCs showed a natural progression in the reporting journey which the companies had embarked upon, but that they were still in a learning process.

## **12.5 Contribution of the research**

This study makes important contributions from scholarly, theoretical, methodological and practical perspectives.

### **12.5.1 Scholarly contribution**

In terms of contribution to the literature, this study's literature review approach explored the status of research on IR by conducting a comprehensive review of existing IR literature and to uncover research gaps and expand the body of knowledge on IR.

Dumay et al. (2016) substantiated the need for a literature review in the first stage of a contemporary research field, such as IR, to capture all available comprehensive IR literature, and shared a view similar to Haji and Hossain (2016) that most of the past studies fall into the category of normative in nature as conceptual studies, and that few studies have been undertaken in organisational contexts, as empirically examined. This present review revealed that IR research published in ABDC-ranked journals comprises 48 conceptual studies (28 in accounting journals and 20 in finance/management journals), 65 qualitative studies (whereas, 44 in accounting journals and 21 articles in finance/management journals) and 58 quantitative studies (of which, 25 accounting and 33 finance/management journals). Surprisingly, this is contradictory to what Dumay et al. (2016) and Haji and Hossain (2016) brought out in their studies. They drew out the fact that most published IR research presents normative arguments for IR and that there is little research examining IR practice. Contradictory to Dumay et al. (2016) and Haji and Hossain (2016), this study shows that the IR research agenda has broadened and opened up by capturing a considerable number of studies probing into IR in practice, published during the time period 2015 to mid-2018, after the incorporation of the IR framework in December 2013.

Additionally, this study bridges the gap in IR disclosure-based studies in developing countries, which is still a largely neglected area in the literature. There is a dearth of empirical research in the area of IR in Sri Lanka. As a novel approach, this study constructs a systematic, structured and

comprehensive disclosure index which contributes to existing knowledge on IR, especially as a point of reference in evaluating IR disclosures. This benchmark was created to operationalize the IR framework by identifying various degrees to which IR disclosures have reported in corporate annual reports. All the individual disclosure index items were developed in the way which is required to fully communicate the organisational value creation as specified in the IR framework released in December 2013 by IIRC. The majority of the individual disclosure items related to three fundamental concepts and eight content elements, while the rest explained the seven guiding principles.

Further, this thesis adds significantly to the limited research literature by exploring new empirical findings related to the following:

- the trends in IR adoption in Sri Lanka
- the understanding of concepts of IR and integrated thinking (INT)
- the relationship between IR and INT
- the extent and nature of IR disclosure practices in terms of guiding principles, content elements and fundamental concepts
- the challenges, issues and barriers in IR

### **12.5.2 Theoretical contribution**

The thesis contributes to theory by developing a better understanding of why companies adopted IR practices in Sri Lanka based on an institutional theoretical lens. Findings contribute to institutional theory, by identifying external pressures through the influence of institutional isomorphism and explaining how they affect organisations in their decisions to adopt IR in their corporate reporting process. This study confirms the three forms of isomorphism – coercive, mimetic and normative – as significant driving forces which drive the IR adoption by PLCs in Sri Lanka. The influence of ARPCs (annual report producing companies) is also found as a normative pressure on the IR adoption by the Sri Lankan companies, and such influence on IR adoption has not been identified in prevailing literature.

Despite the institutional isomorphism which explained the external factors, this study contributes to the literature by deriving the internal driving forces which impact upon the IR adoption by the

Sri Lankan PLCs. There is much to be gained by ascertaining the variation among organisations over time in their IR adoption as found in the similarity in the change in the degree of homogeneity. While the concept of institutional isomorphism is used as a tool to understand the external drivers of IR adoption in Sri Lanka through the process of isomorphism (homogenisation), the internal drivers of the adoption of IR in Sri Lanka is apprehended through the process of isopraxis (heterogenisation). The internal drivers of IR include individual motives towards IR, internal leaders for IR, availability of resource personnel inside the organisation and support from top management, all of which have encouraged the diversity of IR adoption and thus contributed to filling a vacuum in IR literature and institutional theory in particular.

The present study also uses stakeholder theory to shed light on the proposed theoretical framework to conceptualise and explain the organisational value creation through integrated thinking through a stakeholder approach to multi-capitals management. This strand of thinking provides a standardised way to think about organisations' capitals and incorporate thinking towards organisations' strategy. The heart of integrated thinking is knowing what an organisation is for and the strategies that the organisations employ to address their stakeholders. This proposed conceptual model emphasises that businesses should be focused on long-term multi-capital value creation which leads to fair, balanced and understandable reporting. The proposed framework encapsulates the connectivity across the business in place, board and senior management involvement and significant engagement takes place with stakeholders as providers of capitals, which are going to be the raw materials in organisations' value creation process. This connectivity ensures that the multiple capitals are involved in organisations' decision-making. Hence, the proposed conceptual framework of the present study embeds the multi-capitals thinking from a stakeholder perspective as the key to conceptualise and accelerate integrated thinking in organisations.

### **12.5.3 Methodological contribution**

The research methodology of this study contributes to the prevalent literature by means of addressing few methodological gaps. First, as a methodological contribution, this study employed a triangulated research method that included a corporate report review of 238 reports based on content analysis (using a disclosure index prepared in the study) to capture the longitudinal changes in corporate reporting practices before and after the adoption of IR framework during the



first phase of the data collection to explore the extent and nature of the IR disclosures over a period of seven years and a semi- structured interview process in discovering the story of IR in Sri Lanka as an exploratory study during the second phase of the data collection. Next, the scholarly contribution of the structured, extensive and comprehensive disclosure index developed based on the IR framework itself serves as a methodological contribution too.

Then, the present study extends to a methodological contribution through the participant triangulation by examining the unique and valid views, perceptions and experiences from different respondents collected using the semi-structured interview method. During the second phase of the data collection, the study conducted 62 interviews representing 20 PLCs as timely adopters of IR, 5 PLCs as late adopters of IR, 1 public sector company, 2 PAOs, 2 audit firms, 1 regulator, 3 annual report producing companies, 2 local academics and 2 international academics, 1 annual report writer as different participants. In addition to these, the study has already added the insights of a panel discussion session of a workshop conducted by PAO1 on IR with the participation of the present researcher as a panellist. All these panellists were engaged in this study as interviewees as well. This triangulation in the research methods and the participants also serves to as a way to improve the validity and reliability of the present research.

#### **12.5.4 Practical contribution**

In a developing country context, this study is the first to provide a comprehensive and extensive IR disclosure index as a benchmark for analysing and evaluating compliance with the international IR framework (IIRC, 2013b) based on its seven guiding principles, eight content elements and three fundamental concepts assessing the extent to which IR disclosures make visible in the reports they prepare in communicating their value creation story.

While the construction of this disclosure index makes a scholarly contribution, its operationalisation provides a practical contribution as a tool to assist report preparers in developing the content for their INRs and to assist readers in evaluating the content of INRs. Further, demonstrating the application of this IR disclosure index to a sample of 238 corporate reports (34 PLCs over a seven-year period), this study provided a point of reference to explore the extent and nature of the IR disclosures disclosed by the Sri Lankan listed companies in their corporate

reporting, thus revealing significant variations in terms of the level of adherence with the IR framework in a holistic way.

This would also be helpful for local and international IR award competition organisers who evaluate the quality of integrated reports for several award schemes and who may find this disclosure index useful as an evaluation criterion.

Therefore, the insights generated by the application of this IR disclosure index provide a benchmark or a learning scenario for other companies in the same setting or in an international context and are of relevance to academics as well.

## **12.6 Research implication**

The insights and evidence from the empirical findings of this study may gain considerable attention from practitioners, policy makers, regulators, standards setters, professional institutes, accounting firms and academic community.

### **12.6.1 Implications for current and future IR practitioners**

For current practitioners, the learning through the findings of this study draws attention to specific aspects of IR that require improvement. The IR disclosure index provides answers to the companies who were ambiguous on what is to be reported in an integrated report by alleviating their uncertainty and fear in stepping into IR. The analysis of corporate reports based on this IR index sets a benchmark as a practical example for future practitioners on the practicality of adopting IR based on the IR framework. Since this disclosure index creates a practical guideline for application of the IR framework, the findings would encourage them to be innovative in communicating their value creation story without any fear of losing out on awards and discourage reporting practitioners opting for IR as a method to chase IR awards. The interview findings provide clarity to their understanding of what IR really is and what INT means, why it matters and how IR and INT foster each other in their organisation. Thus, the present research helps firms implement substantive integrated thinking and reporting practices properly.

Findings provide insights, knowledge and inspiration for the top management to facilitate the IR process or the decision to adopt IR in Sri Lanka because the findings showed that direction for IR

came from the top and IR needs senior and top management support to succeed in Sri Lanka. The challenges that the interviewees faced during the implementation, preparation and process of IR provide insights to current and future practitioners with an understanding of what challenges they might anticipate and how they can confront those in the best possible ways. Thus, they can make their staff, information systems, technology and other infrastructure ready as prerequisites for their journey of IR.

### **12.6.2 Implications for policy makers**

The empirical insights of this study drawn from a voluntary IR environment in an emerging country are useful in developing capital market strategies, policies and listing requirements by the SEC and CSE. The research results from the Sri Lankan IR experience is helpful towards introducing an IR requirement in a way that listed companies would be encouraged to adopt integrated reporting to enhance their competitiveness and reputation in the financial markets. Thus, IR can be a key driver for developing Sri Lanka's capital markets leading to accelerating the economic growth of the country.

Sustainable policy makers such as GRI, SDGs (sustainable development goals) and climate change can use this study's disclosure index and empirical application as a tool to embrace and deliver global sustainable policies and standards to improve individual organisations' as well as local businesses' adoption and response to these global megatrends.

### **12.6.3. Implications for IIRC**

For IIRC as the global policymaker for IR, this study provides evidence based on the developmental stage of IR practice and draws attention to certain areas that need clarification in the IR framework. These areas have been explored by the present study as challenges and issues encountered by the study participants. Some of these challenges have been addressed by this IR revision as matters under consideration. Some of them are conflict with local regulations, additional reporting burden, director liability concerns, sign-off fatigue, limited connection between outcomes and value creation, tendency to promote the positive, perception that integrated reporting overlooks 'impacts', criticisms relating to Section 1C purpose and users of an integrated

report, implications on connectivity, comparability and reliability of information produced and assurance-related challenges.

With a focus on emphasising how organisations can use the IR framework even more effectively, the IIRC is to update the international IR framework, not as a wholesale revision, but as a modernisation of the IR framework in 2020. IIRC has begun the process of refreshing and revising the IR framework by calling for market feedback on specific themes released under three “Topic Papers” covering Responsibility for an integrated report (Topic 1), Business model considerations (Topic 2), and Charting a path forward (Topic 3).

The productive insights and knowledge through this research may be helpful for IIRC in updating the IR framework as feedback received from a developing country perspective.

#### **12.6.4 Implications for assurance providers**

In the space of assurance providers and standard setters, this study and its benchmark may assist in developing standards and guidelines for assessment of integrated reports. The increasing trend for external assurance and the variations in the level of disclosures in assurance aspect suggest that there is a growing need for companies to provide external assurance on their level of compliance with IIRF in explaining their value creation story.

#### **12.6.5 Implications for regulators and standard setters**

IR is voluntary for Sri Lankan listed companies. The findings inform local regulatory authorities on the extent and quality of IR practice over time and draw attention to specific areas of IR practice that require improvement. Unless a properly regulated environment and a system are in place, it is very difficult for companies to think of improvements and to reap the real benefits of IR. Companies will look at what others do and try to report on that. Thus, there must be an overall direction from a regulatory body as to how companies should report on IR, especially in a voluntary setting.

##### **12.6.5.1 Implications for IRCSL, CASL, other PABs**

The interview findings indicate that CASL, as the national body of accountants, is at the forefront in helping corporates embrace the IR concept as well as the IR framework while exerting a

considerable pressure on companies to adopt IR through their workshops, seminars, webinars and publications. CASL was also found as the primary professional institution driving IR in Sri Lanka.

Although IRCSL was created under the patronage of CASL, the IRCSL's 'Board of Management' is made up of members representing other professional accounting bodies active in Sri Lanka, namely, CMA SL, ACCA SL and CIMA SL. However, the interview findings evidenced that the collective voice of all these is silent and not deemed to play an active role as the 'IRC in Sri Lanka'. The majority of PLCs were not even aware of such a governing body in Sri Lanka, while many recognised and referred to IRCSL as CASL. Even the two publications, 'A Preparer's Guide to Integrated Corporate Reporting' and 'A Supplement to A Preparer's Guide to Integrated Corporate Reporting', were published as a collaboration between IRCSL and CASL, both were copyrighted under CASL. The study recommends that these kinds of publications assisting the IR journey in Sri Lanka should be issued and promoted as publications by IRCSL in order to convince Sri Lankan PLCs of the need for the existence of a governing body like IRCSL.

As Asia's first IRC, IRCSL was supposed to give an opportunity for Sri Lanka to jump ahead and create confidence and trust in businesses in Sri Lanka in embracing IR to attract global capital flows. This study also recommends a systematic mechanism and more awareness to be made among Sri Lankan companies about the IRCSL as the national regulatory body for IR in Sri Lanka. IRCSL then should be engaged in promoting, educating and lobbying for even greater levels of IR while leading and governing the IR practice in Sri Lanka. In this way, this thesis advocates IRCSL as a regulatory force to accelerate IR adoption in Sri Lanka.

Collaboration with other statutory bodies, practitioners, and professionals was one of the main objectives of IRCSL in its inception. However, no evidence for such collaboration was found to be evolving through the interview findings. This study further recommends for a national level collaboration through IRCSL with key professional accountancy bodies (CASL, CMASL, ACCASL, CIMASL), capital market regulatory forces (CSE, Securities and Exchange Commission in Sri Lanka/SEC), accounting regulators (Sri Lanka Accounting and Auditing Standards Board/SLAASMB), standard setters (CASL), banking regulators (Central Bank of Sri Lanka/CBSL, Institute of Bankers in Sri Lanka/IBSL), accounting firms (such as EY, KPMG), academics from eminent universities, and ARPCs to create one voice in terms of IR practices in

Sri Lanka without dispersed actions. This would be pragmatic because the ‘Members of the Advisory Committee’ and ‘Members of the Sub Committee’ of IRCSL are already formed comprising representatives from the above identified parties together with government officials (Auditor General’s Department, Ceylon Chamber of Commerce and The National Chamber of Commerce of Sri Lanka), international policy makers (such as GRI and Un Global Compact), consultants (such as SheConsults Private Limited) and representatives from corporates which practice IR. This study believes that together with all these parties and advocates, IRCSL would be able to make a one voice for a better outcome in IR Sri Lanka.

Consequently, the present study recommends conducting more workshops, seminars and round table discussions on IR to broaden the knowledge on integrated reporting, integrated thinking and IR framework and calls for periodic meetings to participate in webinars hosted by the IRCS, to share current best practices by the corporates and to identify areas for further improvement. These activities would also help accelerate IR adoption in Sri Lanka in terms of normative and mimetic forces. Further, report preparers would have more opportunities to take part in training in IR and to work in partnership with the IIRC through its international business networks. In particular, the IRCSL could provide specific and detailed guidelines on conciseness, connectivity of information, material issues and disclosure of multiple capitals and their trade-offs in the Sri Lankan context.

This collaborative effort would be able to establish a separate committee to revise and refine the evaluation criteria for marking schemes of annual reporting award competitions conducted in the country and to set new guidelines for such award schemes, since these competitions have undoubtedly enhanced the adoption of IR Sri Lanka.

When introducing a mechanism to achieve conciseness in IR, different IR actors, including IR practitioners, highlighted that such mechanism should be stimulated through a regulatory body. The findings would be a key factor for regulators to determine where integrated reports fit within the national regulatory frameworks for corporate reporting. Thus, the suggested collaboration should agree upon establishing a practice for companies to declare that their corporate reports are prepared based on the IR framework and the amount of compliance-based national reporting requirements (for example, different corporate governance codes from CASL, CBSL, jointly by

CSE and CASL) to be incorporated in producing consistent, reliable, and concise corporate reports which can also improve the ability to compare corporate financial and non-financial results.

#### **12.6.6 Implications for professional institutes and Universities as educators**

This research has implications for professional accounting bodies and accounting educators too. While collaborating along with IRC SL, there is a need to incorporate IR in the curriculum of professional accountancy bodies (PABs), particularly as educators. As an initial movement, ACCA has already entrenched IR in its credentials since December 2014. Following that, many other PAOs, including CASL, CIMA SL and CMA SL, and accounting and management courses at university level have also embedded IR into their academic syllabi.

#### **12.6.7 Implications for academics and all other stakeholders**

For academics, the scholarly contributions of this study provide a longitudinal picture of the status and development of IR practice in Sri Lanka. By providing a specific benchmark to support companies in executing IR, this study extends the limited academic and professional IR disclosure research by addressing why IR, how IR and INT relate with each other, how IR works based on the IR framework, and what the challenges are in Sri Lanka.

This study assists all types of stakeholders who use and read the corporate reports by providing an evaluation benchmark against which such reports can be assessed in illuminating the value creation story of Sri Lankan PLCs.

### **12.7 Limitations of the study**

The findings of this study are interpreted within several limitations. First, the study is limited to Sri Lanka where IR is voluntary. Although the study is confined within a single country, the study was able to enrich the interview findings through its larger sample size which comprised different IR actors. This study also accepts the inherent subjectivity of the coding approach in interpretive qualitative research when using interviews as a research method.

Second, in accordance with all other interpretive research, the literature review approach and its findings may be interpreted differently by different researchers. Though the literature review approach itself ensures the objectivity of the present study, limitations can be seen from the view

of selected articles, in the choice of journals and in the limited focus on English-language literature. Thus, the study acknowledges the possibility of omissions of other journal articles, books, book chapters, working papers and conference proceedings which have not been addressed due to the limitations in the time frame and the availability of electronic copies of the articles.

Third, the weighting scores for the individual index items of the disclosure index brings in subjectivity, which is inherent and inevitable in content analysis studies. Yet, the theoretical and practical contribution of the disclosure index negates the subjectivity of the scores assigned. The present research approach itself would lessen the level of subjectivity and enhance the reliability of research findings: undertaking the content analysis as an in-depth investigation of observing IR action of 34 sample companies over a seven-year period, examining the tone of IR through the nature of IR disclosures in reports rather limiting only to extent of IR disclosures, and backing the disclosure index-based content analysis with the thematic content analysis of interview findings are some of those. However, the study was able to interrogate the reliability and validity issues of the present study using the TACT framework.

## **12.8 Future research**

IR research is still at an initial stage. Hence, this study provides a base for future researchers who are interested in IR. However, the present study's stance on the need for more IR research is intended to make a contribution to the generation of IR knowledge by addressing the compromise between existing research and undiscovered areas in IR research, while opening up avenues to fill research gaps. Future research needs to shed more light on the link between IR, governance, accountability and assurance, overall strategy of the organisation, IR guidelines and new areas, such as United Nation's Sustainable Development Goals.

Future researchers would also contribute to the existing knowledge by uncovering the possible explanations for achieving integrated thinking at the organisational level and how the adoption of IR assists in that achievement. In doing so, the present study's proposed theoretical framework to conceptualise integrated thinking in practice through a stakeholder approach to multi-capitals management may be useful to future researchers.



There is also an opportunity for future research to conduct research on stakeholders' conversations about what should ideally be included in an integrated report in order to include the demand side of corporate reporting as along with the supply side of reporting.

Another future research avenue is to compare a best practice of an IR scenario in a developing country with a developed country best practice scenario, or provide comparative analyses involving mandatory and voluntary settings to enhance the understanding of the implications of IR on corporate reporting practices. Studying the perceptions of different IR actors regarding the repercussions in making IR mandatory or voluntary in articulating a coherent, convinced and a concise story to key stakeholders about how organisations create value over the short, medium and long term would also be a future research avenue.

Future studies can also touch upon how technology can be an enabler in helping facilitate IR and INT among corporates, since technology will play a critical role in the context of modern businesses' thinking and reporting of how value is derived and value is consumed in a business.

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## Appendices

### Appendix A: ABDC-ranked accounting journals featured in IR research

| Year Inception           | Journal acronym | Journal   | ABDC Rating |
|--------------------------|-----------------|---|-------------|
| 1965                     | ABAC            | Abacus: A Journal of Accounting, Finance and Business Studies                     | A           |
| 1970                     | RABR            | Accounting and Business Research  | A           |
| 1960                     | ACFI            | Accounting and Finance  | A           |
| 1988                     | AAAJ            | Accounting Auditing and Accountability Journal (AAAJ had a “Special issue on IR”) | A           |
| 1992                     | RAED            | Accounting Education: An International Journal                                    | B           |
| 1978                     | ACCFOR          | Accounting Forum  | B           |
| 1988                     | ARJ             | Accounting Research Journal   | B           |
| 1976                     | AOS             | Accounting, Organizations and Society   | A*          |
| 1991                     | AUAR            | Australian Accounting Review  | B           |
| 1969                     | BAR             | British Accounting Review   | A           |
| 1990                     | CPA             | Critical Perspectives on Accounting   | A           |
| 1969                     | IJAFR           | International Journal of Accounting and Financial Reporting                       | C           |
| 2008                     | IJMFA           | International Journal of Managerial and Financial Accounting                      | C           |
| 1983                     | IACE            | Issues in Accounting Education  | A           |
| 2007                     | ISEA            | Issues in Social and Environmental Accounting: An International Journal           | C           |
| 2002                     | JAMIS           | Journal of Accounting and Management Information Systems                          | C           |
| 1982                     | JACCPUBPOL      | Journal of Accounting and Public Policy   | A           |
| 1992                     | JAAR            | Journal of Applied Accounting Research  | C           |
| 2003                     | JFRA            | Journal of Financial Reporting and Accounting                                     | C           |
| 1988                     | JIFM            | Journal of International Financial Management and Accounting                      | B           |
| 1986                     | MAJ             | Managerial Auditing Journal   | B           |
| 1993                     | MEDAR           | Meditari Accountancy Research   | C           |
| 2004                     | GRAM            | Qualitative Research in Accounting and Management                                 | B           |
| 1987                     | JRACREG         | Research in Accounting Regulation   | B           |
| 1991                     | RQFNAC          | Review of Quantitative Finance and Accounting                                     | B           |
| 2010                     | SAMPJ           | Sustainability Accounting, Management and Policy Journal                          | B           |
| 1993                     | SEAJ            | Social and Environmental Accountability Journal                                   | B           |
| Total number of articles |                 |   | 27          |

## Appendix B: ABDC-ranked finance and business management journals featured in IR research

| Year Inception   | Journal acronym | Journal   | ABDC Rating |
|--|-----------------|---|-------------|
| 1992   | BEER            | Business Ethics: a European review  | B           |
| 1957   | BUSHOR          | Business Horizons   | C           |
| 1992   | BSE             | Business Strategy and the Environment                                       | B           |
| 1982   | JOUR            | Company and Securities Law Journal  | A           |
| 1996   | CCIJ            | Corporate Communications: an international journal                          | B           |
| 1994   | CSR             | Corporate Social Responsibility and Environmental Management                | C           |
| 2007   | DCM             | Discourse & Communication   | A           |
| 1922   | HBR             | Harvard Business Review   | A           |
| 1992   | IBUSREV         | International Business Review   | A           |
| 2003   | JDG             | International Journal of Disclosure and Governance                          | C           |
| 2011   | IJEFI           | International Journal of Economics and Financial Issues                     | C           |
| 1998   | JACF            | Journal of Applied Corporate Finance  | A           |
| 1982   | JBE             | Journal of Business Ethics  | A           |
| 2001   | JCC             | Journal of Corporate Citizenship  | C           |
| 2000   | JIC             | Journal of Intellectual Capital   | B           |
| 1997   | JMG             | Journal of Management and Governance  | C           |
| 2001   | JMR             | Journal of Management Research  | C           |
| 1990   | MULFIN          | Journal of Multinational Financial Management                               | B           |
| 1948   | KGC             | Keeping Good Companies  | C           |
| 1960   | MIT SMR         | MIT Sloan Management Review: MIT's journal of management research and ideas | A           |
| 1987   | O&E             | Organization and Environment: international journal of eco-social research  | B           |
| 1975   | JPUBREV         | Public Relations Review   | A           |
| 1979   | RIIBAF          | Research in International Business and Finance                              | B           |
| 2004   | SRJ             | Social responsibility Journal   | B           |
| 1970   | SAJBM           | South African Journal of Business Management                                | C           |
| 1988   | SAJEH           | South African Journal of Economic and Management Sciences                   | C           |
| IR articles in other disciplines of ABDC-ranked journals |                 |   |             |
| 1989   | ISEE            | Ecological Economics  | A           |
| 1930   | PQ              | Policy Quarterly  | B           |
| 1984   | P&M             | Psychology & Marketing  | A           |
| Total number of articles                                 |                 |   | 29          |

## Appendix C: Articles published on IR in non-ABDC-ranked journals

| Non-ABDC ranked accounting and finance and business management journals                   | Total | % frequency |
|---|-------|-------------|
| African Journal of Business Ethics  | 1     | 2.0         |
| African Journal of Business Management  | 4     | 8.2         |
| Asian Journal of Accounting Research  | 1     | 2.0         |
| Audit financiar   | 2     | 4.1         |
| Environmental Quality Management  | 1     | 2.0         |
| Entrepreneurial Executive   | 1     | 2.0         |
| European Research Studies Journal   | 1     | 2.0         |
| International Journal of Academic Research in Accounting, Finance and Management Sciences | 1     | 2.0         |
| Indian Journal of Corporate Governance  | 1     | 2.0         |
| International Business & Economics Research Journal                                       | 1     | 2.0         |
| International Journal of Business and Management  | 6     | 12.2        |
| International Review of Business  | 1     | 2.0         |
| Journal of Accounting and Finance   | 1     | 2.0         |
| Journal of Cleaner Production   | 6     | 12.2        |
| Journal of Economic and Financial Sciences  | 2     | 4.1         |
| Journal of Legal, Ethical and Regulatory Issues   | 2     | 4.1         |
| Journal of Management Control   | 2     | 4.1         |
| Journal of Sustainability Management  | 1     | 2.0         |
| Procedia Economics and Finance  | 3     | 6.1         |
| Procedia - Social and Behavioral Sciences   | 1     | 2.0         |
| Southern African Business Review  | 1     | 2.0         |
| Spanish Accounting Review   | 1     | 2.0         |
| Sustainability Management Forum   | 2     | 4.1         |
| Sustainability  | 1     | 2.0         |
| Annales Universitatis Apulensis Series Oeconomica <sup>26</sup>                           | 1     | 2.0         |
| Amfiteatru Economic <sup>27</sup>   | 1     | 2.0         |
| SEA-Practical Application of Science  | 1     | 2.0         |
| Bulletin of Geography. Socio-economic Series  | 1     | 2.0         |
| Total   | 48    |             |

<sup>26</sup> A peer-reviewed academic journal, published by the University of Alba Iulia, Romania

<sup>27</sup> Quarterly publication by the Bucharest University of Economic Studies, the Faculty of Business and Tourism, Romania



## Appendix D: Historical development of the IR by IIRC

| Document name/Year           | Publication Title   |
|------------------------------|---|
| IIRC (2011) Discussion paper | Towards IR - Communicating Value in the 21st Century  |
| IIRC (2012 July)b            | Draft Framework Outline   |
| IIRC (2012 September)a       | Pilot Programme 2012 Year Book -Capturing the experiences of global businesses and investors                                  |
| IIRC (2013 March)            | Business Leaders: What You Need to Know   |
| IIRC (2013)                  | The pilot programme 2013 yearbook   |
| IIRC (2013 March)d           | BM- Background Paper for <IR>   |
| IIRC (2013 March)f           | Capitals-Background Paper for <IR>  |
| IIRC (2013 March)            | Materiality- Background Paper for <IR>  |
| IIRC (2013 July)e            | Connectivity-Background paper for IR  |
| IIRC (2013 July)             | Value Creation-Background paper   |
| IIRC (2013 December)         | Basis for Conclusions   |
| IIRC (2013 December)c        | Summary of Significant Issues   |
| IIRC (2013 April)a           | Consultation Draft of the IIRF  |
| IIRC (2013 December)b        | The International <IR> Framework  |
| IIRC (2014 November)         | Creating Value - Value to the board   |
| IIRC (2015 April)            | Creating Value - Value to investors   |
| IIRC (2015 July)a            | Assurance on <IR>. Overview of feedback and call to action  |
| IIRC (2015)b                 | Applying the IR concept of ‘capitals’ in the banking industry”, Banking Network IIRC  |
| IIRC (2015 November)         | Materiality in <IR> - Guidance for the preparation of INRs  |
| IIRC (2015 December)         | Creating Value - <IR> and Investor Benefits   |
| IIRC (2015)f                 | Progress through reporting, IR 2015   |
| IIRC (2015)                  | Three shifts towards better making decision   |
| IIRC (2016 June)             | Creating Value-the value for human capital reporting  |
| IIRC (2016 September)b       | Technology for IR- A CFO guide for driving multi-capital thinking   |
| IIRC (2016 October)c         | Creating Value - The cyclical power of INT and IR   |
| IIRC (2016) d                | Applying the IR concepts of outcomes and social and relationship capital in the banking industry- Banking Network IIRC        |
| IIRC (2017 September)a       | The Sustainable Development Goals (SDG), INT and INRs   |
| IIRC (2017 September)b       | Investors support IR as a route to better understanding of performance  |
| IIRC (2017 October)c         | Technical Programme Progress Report 2018  |
| IIRC (2017 October)d         | Creating Value -Benefits to Investors   |
| IIRC (2017 October)e         | IIRF Implementation Feedback -Invitation to comment   |
| IIRC (2017 July)f            | Creating Value CFO Leadership in <IR>   |
| IIRC (2017 March)g           | IIRF Implementation Feedback- Summary report  |
| IIRC (2018 March)a           | Technology Primer for IR- A Chief Information Officer Guide   |
| IIRC (2018 August)b          | IIRC INR -Breaking Through  |
| IIRC (2020) a,b,c            | IIRF revision-Topic Paper 1 Responsibility for an INR, Topic Paper 2 BM considerations, Topic Paper 3 Charting a path forward |

**Appendix E: IR related reports and documentaries by professional institutes, accounting firms, standard setters and regulatory bodies**

| <b>Professional Institute/Accounting firms/ regulatory bodies</b>       | <b>Document name</b>   |
|---|--|
| Institute of Directors in Southern Africa (ID SA) (2009)                | King Code of Governance Principles (King III)  |
| ID SA (2009)  | King report on corporate governance for South Africa (SA)2009  |
| Integrated Reporting Committee South Africa (IRC SA) (2014)             | Preparing an INR - A Starter's Guide   |
| IRC SA (2015)   | Reporting on Outcomes: An Information Paper  |
| IRC SA (2016)   | Disclosure of Performance Against Strategic Objective: An Information Paper  |
| IRC SA (2017)   | Disclosure of Governance Information in the INR: An Information Paper  |
| IRC SA (2018a)  | Preparing an INR: A Starter's Guide (Updated)  |
| IRC SA (2018b)  | Achieving Balance in the INR: An Information Paper   |
| Global Reporting Initiative (GRI) (2013a)                               | The sustainability content of INRs – a survey of pioneers  |
| GRI (2013b)   | The external assurance of SR   |
| The International Auditing and Assurance Standards Board (IAASB) (2015) | Exploring Assurance on IR and Other Emerging Developments in ER  |
| IAASB (2016a)   | Discussion Paper. IR Working Group-Supporting Credibility and Trust in Emerging Forms of ER: Ten Key Challenges for Assurance Engagements  |
| IAASB (2016b)   | Supplemental Information. IR Working Group- Supplemental Information to the Discussion Paper, Supporting Credibility and Trust in Emerging Forms of ER: Ten Key Challenges for Assurance Engagements |
| Integrated Federation of Accountants (IFAC) (2015)                      | Creating Value with INT - The Role of Professional Accountants   |
| IFAC (2015)   | Materiality in <IR>Guidance for the preparation of INRs  |
| IFAC (2017)   | Creating value for SMEs through INT-The benefits of <IR>   |
| IFAC (2017b)  | IFAC policy position 8- Enhancing organizational reporting: IR key   |
| IFAC (2018)   | Long Term Value Creation Through IR  |
| Deloitte Global Services Limited, 2011                                  | IR - A better view?  |
| Deloitte & Touche, Johannesburg, 2012                                   | IR. Navigating your way to a truly INR   |
| Deloitte Touche Tohmatsu Limited, UK, 2013                              | Deloitte's comment letter on Consultation Draft of the IIRF  |
| Deloitte LLP, UK, 2015  | A Directors' Guide to IR   |
| Deloitte The Netherlands, 2015  | IR as a driver for INT?  |
| Deloitte Touche Tohmatsu Limited., UK, 2015                             | The New IIRF. A review guide for audit committee members   |
| Deloitte LLP, UK, 2017  | Annual report insights 2017. Surveying FTSE reporting  |

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|--|--|
| Deloitte SAS, 2018 (September)                           | Overview of INRs-Published by SBF 120 companies in 2018  |
| EYGM Limited/ EY (2013a)                                 | IR - Communicating sustainable value creation  |
| EY, 2013   | The concept of 'capital' in IR   |
| EY, 2014   | IR-Elevating Value   |
| EY, 2016   | IR-Linking strategy, purpose and value   |
| EY, 2012, 2013, 2014, 2015, 2016, 2017                   | EY's Excellence in IR Awards - A survey of INRs from SA's top 100 JSE listed companies and top ten state-owned companies |
| EY, 2016   | 5 Insights for boards-King IVTM update INT and IR  |
| EY, 2017   | Is your non-financial performance revealing the true value of your business to investors?                                |
| EY, 2018   | EY's Excellence in IR Awards 2018- A survey of INRs from SA's top 100 JSE listed companies                               |
| KPMG International Cooperative/ KPMG (2008)              | KPMG International Survey of CRR   |
| KPMG (2011)  | KPMG International Survey of CRR 2011  |
| KPMG (2012)  | Sustainable Insight - Expect the Unexpected: Building business value in a changing world                                 |
| KPMG (2012)  | Active Governance: the core of Better Business Reporting   |
| KPMG (2013)  | IR: Addressing the reporting gap   |
| KPMG (2013)  | The Business Case for IR   |
| KPMG (2013)  | Introducing IR   |
| KPMG (2015)  | Currents of change: The KPMG Survey of CRR   |
| KPMG (2016)  | Room for Improvement -The KPMG Survey of Business Reporting  |
| KPMG (2017)  | Survey of INRs in Japan  |
| KPMG (2017)  | The road ahead: The KPMG Survey of CRR   |
| KPMG Australia 2017                                      | Corporate reporting  |
| PricewaterhouseCoopers International Limited/ PwC (2009) | King III IR – SR no longer a poor cousin to the financial numbers  |
| PwC (2012)   | IR-The future of corporate reporting   |
| PwC (2013)   | IR Companies struggle to explain what value they create  |
| PwC (2013)   | The value creation journey A survey of JSE Top-40 companies' INRs  |
| PwC (2013)   | Response to IIRC Consultation Draft of the IIRF  |
| PwC (2014)   | Value creation: The journey continues A survey of JSE Top-40 companies' INRs   |
| PwC (2014)   | Inspiring trust through insight  |
| PwC (2015)   | Implementing IR  |
| PwC (2015)   | IR Where to next?  |
| PwC (2015)   | Corporate performance: What do investors want to know? Powerful stories through IR                                       |
| PwC (2016)   | It's not just about the financials. The widening variety of factors used in investment decision making                   |
| Black Sun Plc 2012                                       | Understanding Transformation- Building the Business case for IR  |
| Black Sun 2014   | Realizing the benefits: The Impact of IR   |
| Black Sun & IIRC 2015                                    | The IR journey: the inside story   |
| Black Sun 2016   | Value of Value: Board-Level Insights. Purpose Beyond Profit  |
| Black Sun 2017   | What Better Reporting Looks Like? - A snapshot of 50 organizations from around the world recognised for their IR         |

|  |  |
|--|--|
| Black Sun & Association of International Certified Professional Accountants (AICPA) 2018 | Purpose Beyond Profit. The Value of Value–Board-Level Insights   |
| The Association for Chartered Certified Accountants/ACCA (2011)                          | Adoption of IR by the ASX 50   |
| ACCA 2012  | IR: the influence of King III on social, ethical and environmental reporting   |
| ACCA 2012  | IR: The new face of social, ethical and environmental reporting in SA? (Atkins & Maroun, 2012)                                       |
| ACCA 2015 – (Maroun, Atkins, & ACCA, 2015)   | The Challenges of Assuring INRs: Views from the SA Auditing Community  |
| ACCA 2016a   | Factors affecting preparers' and auditors' judgements about materiality and conciseness in IR/Summary                                |
| ACCA 2016b   | Meeting users' information needs: The use and usefulness of IR/The use and usefulness of IR- Summary                                 |
| ACCA 2017a   | Insights into IR - Challenges and best practice responses  |
| ACCA 2017b   | The SDGs: redefining context, risk and opportunity   |
| ACCA 2018a   | Insights into IR 2.0: walking the talk   |
| ACCA 2018b   | Tenets of good corporate reporting   |
| ACCA 2018c   | Tenets of good corporate governance  |
| ACCA 2018d   | Risk and the strategic role of leadership  |
| Centre for Tomorrow's Company, 2014  | Tomorrows Business Success - Using IR to help create value and effectively tell the full story                                       |
| Centre for Tomorrow's Company, 2014  | Tomorrow's Business Success -Using IR to help create value and effectively tell the full story - A guide for Chairmen, CEOs and CFOs |
| The Chartered Global Management Accountant (CGMA), 2014                                  | The IR landscape- The executive perceptions of IR  |
| Institute of Chartered Accountants/ CIMA, 2015   | IR in the public sector  |
| CGMA, 2016   | Your Journey to INT - Joining the dots: Assessing your organization's decision-making capabilities                                   |
| CGMA (2014)  | INT - The next step in IR  |
| AICPA & CIMA (2017)  | Joining the dots: decision making for a new era  |
| CIMA Research Executive Summary (AICPA, 2017)  | INT - Aligning purpose and the business model to market opportunities and sustainable performance                                    |
| The South African Institute of Chartered Accountants (SAICA) 2015                        | INT. An Exploratory Survey   |
| The South African Institute of Professional Accountants (SAIPA)                          | The Benefits of IR to SMMES-for-SMME's   |
| Institute of Management Accountants (IMA) & ACCA (2016)                                  | From share value to shared value: Exploring the role of accountants in developing IR in practice                                     |
| IMA 2016   | IR by George Serafeim  |
| CASL & IRC SL (2015)   | A Preparer's Guide to Integrated Corporate Reporting   |

|  |   |
|--|---|
| CASL & IRC SL (2017)   | A Supplement to A Preparer's Guide to Integrated Corporate Reporting-Supplement 001             |
| IAA- The Institute of Internal Auditors (2013)   | IR and the emerging role of the internal auditing   |
| The Italian Network for Business Reporting (Network Italiano Business Reporting – NIBR 2016) | IR focus on INT, A handbook for the change journey  |
| DirectorsBrief (2015)  | What's the future of corporate reporting?   |
| DirectorsBrief (2018)  | INT – a pathway to greater stakeholder engagement   |
| Sustainable Future Limited – Project one Integrated Report 2011                              | Integrated Annual Report Survey of New Zealand's Top 200 Companies                              |
| McGuinness Institute and IIRC 2017   | An analysis of the 2017 Extended External Reporting Surveys                                     |
| FrameworkESG Business, better 2013   | The state of IR - Innovation and experimentation in the merging of ESG and financial disclosure |
| RobescoSAM 2015  | Measuring Intangibles RobescoSAM's Corporate Sustainability Assessment Methodology              |

## Appendix 6A: Synopsis of the detailed analysis of the sampling process and sample of the present study

| Sector & Company                  |   | Year of adoption |      |                    |      |      |      |      |
|-----------------------------------|---|------------------|------|--------------------|------|------|------|------|
|                                   |   | 2016             | 2015 | 2014 <sup>28</sup> | 2013 | 2012 | 2011 | 2010 |
| <b>Bank Finance and Insurance</b> |   |                  |      |                    |      |      |      |      |
| 1                                 | PEOPLE'S LEASING & FINANCE PLC                            | 1                | 1    | 1                  |      |      |      |      |
| 2                                 | ARPICO FINANCE COMPANY PLC                                | 1                |      |                    |      |      |      |      |
| 3                                 | MERCANTILE INVESTMENTS AND FINANCE PLC                    | 1                | 1    | 1                  | 0    |      |      |      |
| 4                                 | UNION ASSURANCE PLC                                       | 1                | 1    | 1                  | 1    |      |      |      |
| 5                                 | HOUSING DEVELOPMENT FINANCE CORPORATION BANK OF SRI LANKA | 1                | 1    | 0                  | 0    | 1    | 1    |      |
| 6                                 | PEOPLE'S INSURANCE PLC                                    | 1                | 1    | 1                  |      |      |      |      |
| 7                                 | CITIZENS DEVELOPMENT BUSINESS FINANCE PLC                 | 1                | 1    | 1                  | 0    |      |      |      |
| 8                                 | SEYLAN BANK PLC   | 1                | 1    | 1                  | 1    |      |      |      |
| 9                                 | AMANA TAKAFUL LIFE PLC                                    | 1                |      |                    |      |      |      |      |
| 10                                | DFCC BANK PLC   | 1                | 1    | 1                  | 1    |      |      |      |
| 11                                | NATIONS TRUST BANK PLC                                    | 1                | 1    | 1                  |      |      |      |      |
| 12                                | HATTON NATIONAL BANK PLC                                  | 1                | 1    | 1                  |      |      |      |      |
| 13                                | SOFTLOGIC CAPITAL PLC                                     | 0                |      |                    |      |      |      |      |
| 14                                | SOFTLOGIC FINANCE PLC                                     | 1                |      |                    |      |      |      |      |
| 15                                | COMMERCIAL BANK OF CEYLON PLC                             | 1                | 1    |                    |      |      |      |      |
| 16                                | NATIONAL DEVELOPMENT BANK PLC                             | 1                | 1    | 1                  | 1    |      |      |      |
| 17                                | SOFTLOGIC LIFE INSURANCE PLC                              | 1                | 1    | 1                  | 1    |      |      |      |
| 18                                | HNB ASSURANCE PLC   | 1                | 1    | 1                  | 1    | 1    |      |      |
| 19                                | MERCHANT BANK OF SRI LANKA & FINANCE PLC                  | 1                | 1    | 1                  |      |      |      |      |
| 20                                | SANASA DEVELOPMENT BANK PLC                               | 1                | 1    | 1                  |      |      |      |      |
| 21                                | JANASHAKTHI INSURANCE COMPANY PLC                         | 1                | 1    | 1                  | 1    |      |      |      |
| 22                                | L B FINANCE PLC   | 1                | 1    | 1                  | 1    |      |      |      |
| 23                                | SAMPATH BANK PLC  | 1                | 1    | 1                  |      |      |      |      |
| 24                                | UNION BANK OF COLOMBO PLC                                 | 1                | 1    |                    |      |      |      |      |
| 25                                | ALLIANCE FINANCE PLC                                      | 1                | 1    |                    |      |      |      |      |
| 26                                | LOLC PLC  | 1                | 1    |                    |      |      |      |      |
|                                   | Sub Total   | 25               | 22   | 17                 | 8    | 2    | 1    |      |

<sup>28</sup> 34 IR adopters in the year of 2014 is selected as the study sample

|                                      |                                     |      |   |   |   |   |  |  |
|--------------------------------------|-------------------------------------|------|---|---|---|---|--|--|
| <b>Beverage Food &amp; Tobacco</b>   |                                     |      |   |   |   |   |  |  |
| 27                                   | CEYLON COLD STORES PLC              | 1    | 1 |   |   |   |  |  |
| 28                                   | CEYLON TOBACCO COMPANY PLC          | 1    | 1 |   |   |   |  |  |
| 29                                   | KEELLS FOOD PRODUCTS PLC            | 1    |   |   |   |   |  |  |
| 30                                   | CARGILLS (CEYLON) PLC               | 1    |   |   |   |   |  |  |
| 31                                   | TEA SMALL HOLDER FACTORIES PLC      | 1    |   |   |   |   |  |  |
|                                      | Sub Total                           | 5    | 2 |   |   |   |  |  |
| <b>Chemicals and Pharmaceuticals</b> |                                     |      |   |   |   |   |  |  |
| 32                                   | CIC HOLDINGS PLC                    | 1    | 1 |   |   |   |  |  |
| <b>Construction and Engineering</b>  |                                     |      |   |   |   |   |  |  |
| 33                                   | ACCESS ENGINEERING PLC              | 1    | 1 | 1 |   |   |  |  |
| 34                                   | MTD WALKERS PLC                     | 1    |   |   |   |   |  |  |
| 35                                   | COLOMBO DOCKYARD PLC                | 0    | 1 | 1 | 1 |   |  |  |
|                                      | Sub Total                           | 2    | 2 | 2 | 1 |   |  |  |
| <b>Diversified Holdings</b>          |                                     |      |   |   |   |   |  |  |
| 36                                   | SUNSHINE HOLDINGS PLC               | 1    | 1 | 1 |   |   |  |  |
| 37                                   | HAYLEYS PLC                         | 1    | 1 | 1 | 1 |   |  |  |
| 38                                   | EXPOLANKA HOLDINGS PLC              | 1    | 1 | 1 |   |   |  |  |
| 39                                   | JOHN KEELLS HOLDINGS PLC            | 1    | 1 | 1 | 1 | 1 |  |  |
| 40                                   | AITKEN SPENCE PLC                   | 1    | 1 | 1 | 1 | 1 |  |  |
|                                      | Sub Total                           | 5    | 5 | 5 | 3 | 2 |  |  |
| <b>Footwear and Textiles</b>         |                                     |      |   |   |   |   |  |  |
| 41                                   | HAYLEYS FABRIC PLC                  | 1    | 1 |   |   |   |  |  |
| <b>Health Care</b>                   |                                     |      |   |   |   |   |  |  |
| 42                                   | THE LANKA HOSPITAL CORPORATION PLC  | 1    |   |   |   |   |  |  |
| 43                                   | NAWALOKA HOSPITALS PLC              | 1    | 1 | 1 |   |   |  |  |
|                                      | Sub Total                           | 2    | 1 | 1 |   |   |  |  |
| <b>Hotels and Travels</b>            |                                     |      |   |   |   |   |  |  |
| 44                                   | THE NUWARA ELIYA HOTELS COMPANY PLC | 1    | 1 |   |   |   |  |  |
| 45                                   | THE LIGHTHOUSE HOTEL PLC            | 1    | 1 | 1 |   |   |  |  |
| 46                                   | JOHN KEELLS HOTELS PLC              | 1    | 1 |   |   |   |  |  |
| 47                                   | AITKEN SPENCE HOTEL HOLDINGS PLC    | 1    | 1 | 1 | 1 | 1 |  |  |
|                                      | Sub Total                           | 4    | 4 | 2 | 1 | 1 |  |  |
| <b>Information Technology</b>        |                                     | None |   |   |   |   |  |  |
| <b>Land and Property</b>             |                                     | None |   |   |   |   |  |  |
| <b>Manufacturing</b>                 |                                     |      |   |   |   |   |  |  |

|   |                                |      |      |      |      |      |      |      |
|---|--------------------------------|------|------|------|------|------|------|------|
| 48  | SAMSON INTERNATIONAL PLC       | 1    | 1    |      |      |      |      |      |
| 49  | DIPPED PRODUCTS PLC            | 1    | 1    | 1    |      |      |      |      |
| 50  | TEEJAY LANKA PLC               | 1    |      |      |      |      |      |      |
| 51  | SIERRA CABLES PLC              | 1    |      |      |      |      |      |      |
| 52  | LANKA TILES PLC                | 1    |      |      |      |      |      |      |
| 53  | ALUMEX PLC                     | 1    |      |      |      |      |      |      |
|   | Sub Total                      | 6    | 2    | 1    |      |      |      |      |
| <b>Motor</b>                                |                                |      |      |      |      |      |      |      |
| 54  | DIESEL & MOTOR ENGINEERING PLC | 1    | 1    | 1    | 1    | 1    | 1    |      |
| <b>Oil Palms</b>                            |                                | None |      |      |      |      |      |      |
| <b>Plantations</b>                          |                                |      |      |      |      |      |      |      |
| 55  | TALAWAKELLE TEA ESTATES PLC    | 1    | 1    | 1    | 1    |      |      |      |
| 56  | KELANIWELI PLANTATIONS PLC     | 1    | 1    | 1    | 1    |      |      |      |
| 57  | WATAWALA PLANTATIONS PLC       | 1    | 1    | 1    |      |      |      |      |
| 58  | MASKELIYA PLANTATIONS PLC      | 1    |      |      |      |      |      |      |
|   | Sub Total                      | 4    | 3    | 3    | 2    |      |      |      |
| <b>Power and Energy</b>                     |                                |      |      |      |      |      |      |      |
| 59  | LAUGFS GAS PLC                 | 1    | 1    | 1    |      |      |      |      |
| 60  | LANKA IOC PLC                  | 1    |      |      |      |      |      |      |
| 61  | RESUS ENERGY PLC               | 1    |      |      |      |      |      |      |
|   | Sub Total                      | 3    | 1    | 1    |      |      |      |      |
| <b>Services</b>                             |                                |      |      |      |      |      |      |      |
| 62  | JOHN KEELLS PLC                | 1    | 1    |      |      |      |      |      |
| <b>Stores Supplies</b>                      |                                | None |      |      |      |      |      |      |
| <b>Telecommunications</b>                   |                                |      |      |      |      |      |      |      |
| 63  | SRI LANKA TELECOM PLC          | 1    | 1    | 1    | 1    |      |      |      |
| <b>Trading</b>                              |                                |      |      |      |      |      |      |      |
| 64  | BROWN & COMPANY PLC            | 1    |      |      |      |      |      |      |
| <b>Other</b>                                |                                | None |      |      |      |      |      |      |
|   |                                | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
| TOTAL IR ADOPTED COMPANIES OVER SEVEN YEARS |                                | 62   | 47   | 34   | 17   | 6    | 2    | 0    |



## Appendix 6B: Interview guideline for semi-structured interview guide

| Research question   | Interview question  |
|---|---|
| Why Sri Lankan listed companies voluntarily publish integrated reports? / What motivates companies to voluntarily publish integrated reports? | <ul style="list-style-type: none"> <li>▪ How did you get to know about IR?</li> <li>▪ Where and/or when did you first get to know about this concept of IR?</li> <li>▪ Who initiated IR in your organisations?</li> <li>▪ What initiated IR in your organisation? / What made your organisation into IR?</li> <li>▪ What drives IR at your organisation so far?</li> <li>▪ Why did your organisation step into the process of IR? / Why IR in your organisation? / What made your organisation to adopt IR?</li> <li>▪ Why did you shift to IR from sustainability reporting?</li> <li>▪ What support is there from top management towards this new reporting agenda?</li> <li>▪ What support you get from IRC SL?</li> <li>▪ What is your role in the IR process?</li> <li>▪ Do you have a writer?</li> <li>▪ Do you get the service of an annual report company?</li> <li>▪ What made your company to apply for IR awards?</li> </ul> |
| How does integrated thinking and IR integrate and interrelate each other?   | <ul style="list-style-type: none"> <li>▪ Do you know about IR?</li> <li>▪ What do you mean by IR at your organisation?</li> <li>▪ What IR meant to you?</li> <li>▪ What do you mean by INT?</li> <li>▪ Do you know INT in IR?</li> <li>▪ Do you see any relationship between IR and INT?</li> <li>▪ What relationship you see in IR and INT in your organisation?</li> <li>▪ Do you think IR leads to INT or INT leads to IR?</li> <li>▪ In your view what you mean by disclosing “this is an integrated report”?</li> </ul>  |

|  |  |
|--|--|
| <p>What is the extent and nature of IR disclosures published by the Sri Lankan publicly listed companies</p> | <ul style="list-style-type: none"> <li>▪ How do you differ value creation concept in IR compared to value added statement (VAS) or economic value added (EVA)?</li> <li>▪ In terms of external reporting, what difference you have made in the value creation after adopting IR?</li> <li>▪ What changes made in reporting in terms of value propositions?</li> <li>▪ What value you see of reporting about opportunities?</li> <li>▪ What message you disclose through the chairman's message?</li> <li>▪ Why strategy is disclosed/not disclosed in your report?</li> <li>▪ Why strategy is linked/not linked to BM (capitals and external environment) in the integrated report adopting IR?</li> <li>▪ How useful the concept of Business Model/Value Creation Model for your organisation?</li> <li>▪ How do you report on existing resource allocation?</li> <li>▪ How important the 'Capital' (six capitals in IR) concept to your organisation?</li> <li>▪ Do you link stakeholder insights to strategy formulation in your organisation?</li> <li>▪ How do you decide on the "Materiality of the information to publish"?</li> <li>▪ Do you consider the stakeholders' views in determining materiality?</li> <li>▪ How do you conduct stakeholder mapping matrix? What value it adds?</li> <li>▪ What is ethical responsibility in your organisation?</li> <li>▪ Do you know conciseness principle in IR?</li> <li>▪ What is your idea in conciseness in IR?</li> <li>▪ Why did not you disclose about the team of IR in your report?</li> <li>▪ Who is responsible for IR and FR?</li> <li>▪ Why you have a writer or an agency to write about your annual report?</li> </ul> |
| <p>What challenges do Sri Lankan PLCs encounter in the voluntary adoption of IR?</p>                         | <ul style="list-style-type: none"> <li>▪ What are the challenges you have experienced in the process of IR?</li> <li>▪ Have you followed IIRF since your adoption? If not, Why?</li> <li>▪ What difficulty you have experienced in following IIRF?</li> </ul>  |

|  |  |
|--|--|
|  | <ul style="list-style-type: none"> <li>▪ Do you have recommendations/improvements or suggestions to IIRF as areas to be improved or areas that have gained lack of focus?</li> <li>▪ Have you experienced any difficulty in preparing your first integrated report?</li> <li>▪ How did you obtain information for your integrated report?</li> <li>▪ How do you define value creation at your organisation?</li> <li>▪ What is your idea on capital concept in IR?</li> <li>▪ What difficulty you faced in implementing / reporting on capitals?</li> <li>▪ Why did not you follow IIRF capital definitions?</li> <li>▪ What difficulty you faced in reporting capital trade-offs?</li> <li>▪ What value BM adds to your company?</li> <li>▪ How do you achieve conciseness in your IR? / What are the steps taken to concise your annual report? In which way you think you can achieve conciseness in your report?</li> <li>▪ Did you find any difficulty in achieving conciseness?</li> <li>▪ What difficulty you have in providing more cross references, and providing links to other detailed information?</li> <li>▪ Why did not you reduce the number of pages even after adopting IR?</li> <li>▪ Who engages in the annual report preparation? Who involved in the reporting process?</li> <li>▪ What is your idea about IR awards?</li> <li>▪ For whom your external reporting is?</li> <li>▪ Was your top management supportive towards IR process in the company?</li> <li>▪ How was the employee support towards IR?</li> <li>▪ Why did you obtain external assurance on NFI or SR/GRI information?</li> <li>▪ Who should provide the assurance for IR as you perceive?</li> <li>▪ How do you select the assurance provider?</li> <li>▪ What are the reasons for non-availability of an external assurance report?</li> </ul> |
|--|--|

## Appendix 6C: Interviewee details

| No.   | Interview date (m/d/y) | Industry              | Company/ Institute code | Interviewee's position                         | Interviewee code | Duration of the interview (Minutes) |
|---|------------------------|-----------------------|-------------------------|--|------------------|-------------------------------------|
| <b>IR practioners in CSE listed companies</b> |                        |                       |                         |  |                  |                                     |
| <b>Early and Timely Adopters of IR</b>        |                        |                       |                         |  |                  |                                     |
| 1   | 04/04/18               | Bank 1/PPE            | B1                      | CFO  | B1-1             | 82                                  |
| 2   | 05/03/18               | Bank 1/PPE            | B1                      | Chief Manager - Finance                        | B1-2             | 46                                  |
| 3   | 06/07/18               | Bank 2                | B2                      | Senior Manager Finance                         | B2-1             | 86                                  |
| 4   | 06/13/18               | Insurance 1           | IN1                     | CFO  | IN1-1            | 77                                  |
| 5   | 06/13/18               | Insurance 1           | IN1                     | Senior Manager                                 | IN1-2            |                                     |
| 6   | 06/13/18               | Insurance 1           | IN1                     | Accountant 1                                   | IN1-3            |                                     |
| 7   | 06/13/18               | Insurance 1           | IN1                     | Accountant 2                                   | IN1-4            |                                     |
| 8   | 05/17/18               | Construction 1        | CN1                     | General Manager (GM)-Commercial                | CN1-1            | 68                                  |
| 9   | 05/17/18               | Construction 1        | CN1                     | Financial Accountant                           | CN1-2            |                                     |
| 10  | 05/09/18               | Diversified Holding 1 | DH1                     | Group CFO                                      | DH1-1            | 21                                  |
| 11  | 01/18/18               | Diversified Holding 1 | DH1                     | Head - Strategic Business Development          | DH1-2            | 35                                  |
| 12  | 01/29/18               | Diversified Holding 1 | DH1                     | Accountant                                     | DH1-3            | 53                                  |
| 13  | 06/12/18               | Diversified Holding 2 | DH2                     | Financial Controller /Assistant Vice President | DH2-1            | 106                                 |
| 14  | 03/22/18               | Diversified Holding 3 | DH3                     | Group CFO                                      | DH3-1            | 57                                  |
| 15  | 03/22/18               | Diversified Holding 3 | DH3                     | Chief Financial Accountant                     | DH3-2            |                                     |
| 16  | 05/18/18               | Diversified Holding 3 | DH3                     | Business Analyst                               | DH3-3            | 54                                  |
| 17  | 05/18/18               | Diversified Holding 3 | DH3                     | Former Group CFO/Consultant                    | DH3-4            | 17                                  |
| 18  | 06/13/18               | Healthcare 1          | HC1                     | Head of Finance and Corporate Planning         | HC1-1            | 30                                  |
| 19  | 05/16/18               | Hotel 1               | HT1                     | Finance Controller                             | HT1-1            | 52                                  |
| 20  | 03/20/18               | Hotel 1               | HT1                     | Chief Accountant                               | HT1-2            | 42                                  |
| 21  | 06/22/18               | Motor 1               | MT1                     | CFO  | MT1-1            | 130                                 |
| 22  | 07/13/18               | Motor 1               | MT1                     | Accountant 1                                   | MT1-2            | 118                                 |
| 23  | 07/13/18               | Motor 1               | MT1                     | Accountant 2                                   | MT1-3            | 103                                 |
| 24  | 02/02/18               | Plantation 1 and 2    | PL1&2                   | Managing Director                              | PL1&2-1          | 81                                  |
| 25  | 02/02/18               | Plantation 1          | PL1                     | GM Tea Marketing and Corporate Affairs         | PL1-1            |                                     |
| 26  | 02/02/18               | Plantation 2          | PL2                     | GM Finance                                     | PL2-1            |                                     |
| 27  | 02/07/18               | Plantation 1          | PL1                     | GM Tea Marketing and Corporate Affairs         | PL1-1            | 102                                 |

|  |          |  |       |  |        |            |
|--|----------|--|-------|--|--------|------------|
| 28   | 02/07/18 | Plantation 1                           | PL1   | GM Finance   | PL1-2  |            |
| 29   | 05/04/18 | Plantation 3                           | PL3   | CFO/DGM Finance                                    | PL3-1  | 106        |
| 30   | 03/15/18 | Power 1                                | PW1   | CFO  | PW1-1  | 60         |
| 31   | 05/10/18 | Power 1                                | PW1   | Head of Finance                                    | PW1-2  | 76         |
| 32   | 05/10/18 | Power 1                                | PW1   | Finance Manager                                    | PW1-3  |            |
| 33   | 05/10/18 | Power 1                                | PW1   | Group Accountant                                   | PW1-4  |            |
| 34   | 04/11/18 | Telecommunications 1                   | TLC1  | CFO  | TLC1-1 | 55         |
| 35   | 04/11/18 | Telecommunications 1                   | TLC1  | Deputy CFO   | TLC1-2 |            |
| 36   | 04/10/18 | Telecommunications 1                   | TLC1  | GM Finance   | TLC1-3 | 31         |
| 37   | 04/10/18 | Telecommunications 1                   | TLC1  | DGM - Accounting Systems                           | TLC1-4 |            |
| 38   | 05/15/18 | Telecommunications 1                   | TLC1  | Senior Assistant Manager-Corporate Communications  | TLC1-5 | 60         |
|  |          |  |       |  |        | Total 1748 |
| <b>Late Adopters of IR</b>                   |          |  |       |  |        |            |
| 39   | 06/07/18 | Bank 3                                 | B3    | Chief Financial Officer (CFO)                      | B3-1   | 78         |
| 40   | 05/24/18 | Bank 3                                 | B3    | DGM Finance  | B3-2   | 76         |
| 41   | 05/24/18 | Bank 3                                 | B3    | Executive Officer- MIS and Sustainability Unit     | B3-3   |            |
| 42   | 05/17/18 | Healthcare 2                           | HC2   | CFO  | HC2-1  | 89         |
| 43   | 05/17/18 | Healthcare 2                           | HC2   | Senior Manager - Finance                           | HC2-2  |            |
| 44   | 07/30/18 | Hotel 2                                | HT2   | Director Finance                                   | HT2-1  | 65         |
| 45   | 06/13/18 | Trading 1                              | TR1   | Group CFO  | TR1-1  | 56         |
| 46   | 06/19/18 | Chemicals 1                            | CH1   | Group Finance Director/Company Secretary           | CH1-1  | 32         |
|  |          |  |       |  |        | Total 396  |
| <b>Public Sector Organisation</b>            |          |  |       |  |        |            |
| 47   | 06/01/18 | State Bank 1                           | SB1   | Deputy General Manger (DGM) Finance and Planning   | SB1-1  | 91         |
| <b>Other interviews</b>                      |          |  |       |  |        |            |
| <b>Regulatory body</b>                       |          |  |       |  |        |            |
| 48   | 01/11/18 | Regulation                             | IRCSL | Chairman   | REG1-1 | 119        |
| <b>Professional Accounting Organisations</b> |          |  |       |  |        |            |
| 49   | 03/07/18 | Professional Accounting Organisation 1 | PAO1  | Former president/ Partner                          | PAO1-1 | 87         |
| 50   | 03/07/18 | Professional Accounting Organisation 1 | PAO1  | CEO  | PAO1-2 |            |
| 51   | 01/09/18 | Professional Accounting Body 2         | PAB2  | Senior Specialist, Technical Policy and Engagement | PAB2-1 | 45         |
| <b>Audit Firms</b>                           |          |  |       |  |        |            |

|  |               |   |              |   |         |           |
|--|---------------|---|--------------|---|---------|-----------|
| 52   | 07/18/18      | Audit Firm 1  | AU1          | Manager-Transaction Advisory Services   | AU1-1   | 105       |
| 53   | 07/09/18      | Audit Firm 2  | AU2          | Manager-Client Services   | AU2-1   | 42        |
| <b>Annual Report Writers</b>   |               |   |              |   |         |           |
| 54   | 05/24/18      | AR Writer 1   | ARW 1        | Director  | ARW1-1  | 100       |
| <b>Annual Report Producing Companies</b>   |               |   |              |   |         |           |
| 55   | 05/24/18      | AR Producing Company 1                                  | ARPC 1       | Senior Executive  | ARPC1-1 | 89        |
| 56   | 06/05/18      | AR Producing Company 2                                  | ARPC 2       | CEO   | ARPC2-1 | 69        |
| 57   | 06/05/18      | AR Producing Company 2                                  | ARPC 2       | Executive   | ARPC2-2 |           |
| 58   | 06/12/18      | AR Producing Company 3                                  | ARPC 3       | Executive CEO   | ARPC3-1 | 81        |
| <b>Academics</b>   |               |   |              |   |         |           |
| 59   | 06/27/18      | Academic/Sri Lanka                                      | ACASL        | Senior Lecture 1  | ACASL1  | 79        |
| 60   | 07/20/18      | Academic/Sri Lanka                                      | ACASL        | Senior Lecture 2  | ACASL2  | 75        |
| 61   | 07/05/19      | Academic/International                                  | ACAIN        | Professor   | ACAIN1  | 18        |
| 62   | 07/06/19      | Academic/International                                  | ACAIN        | Professor   | ACAIN2  | 26        |
|  |               |   |              |   |         | Total 935 |
| Total time sent for 62 semi-structured interviews                                  |               |   |              |   |         | 3170      |
| <b>IR Workshop Panel Session with 6 panelists</b>                                  |               |   |              |   |         |           |
|  | 03/23/18      | IR Regulator/IRCSL                                      | Moderator    | Panel Session of IR Workshop Moderator-Chairman   |         | 58        |
|  | 03/23/18      | Diversified Holding /DH2                                | Panelist     | Panel Session of IR Workshop-Financial Controller / Assistant Vice President                    |         |           |
|  | 03/23/18      | Motor /MT1  | Panelist     | Panel Session of IR Workshop-CFO  |         |           |
|  | 03/23/18      | AR Writer/ARW1  | Panelist     | Panel Session of IR Workshop-Director   |         |           |
|  | 03/23/18      | AR Producing Company/ARPC1                              | Panelist     | Panel Session of IR Workshop-Senior Executive   |         |           |
|  | 03/23/18      | PAO/Vice President PAO1                                 | Participant  | Panel Session of IR Workshop-Audience Participant   |         |           |
|  | 03/23/18      |   | Panelist     | Panel Session of IR Workshop-Present Researcher as a Panelist                                   |         |           |
| Total time sent for 62 semi-structured interviews and panel session of IR workshop |               |   |              |   |         | 3228      |
| <b>Other IR related research work engaged during the data collection period</b>    |               |   |              |   |         |           |
| <b>Meetings and presentation sessions</b>  |               |   |              |   |         |           |
| 3  | Feb-July 2018 | IR Regulator and Professional Accounting Organisation 1 | IRCSL & PAO1 | 16 Meetings- IR publication document (Chairman/IRC SL, Manager-Legal & Public information/PAO1) |         | 1180      |
| 8  | 04/02/18      | ARPC 2 & AR Writer 1                                    | ARPC2 & ARW1 | Presentation and feedback session with ARPC 2 and ARW1 members                                  |         | 80        |
| 15   | 03/13/2018    | AR preparing teams in PL1 and DH3                       |              | Presentation sessions   |         | 120       |

## Appendix 6D: Information Sheet for Participants

Application Form for ethical consideration of research and teaching proposals involving human participants

[Reference Number: 17/149]

20 October 2017]



### ***INTEGRATED REPORTING IN SRI LANKA: AN EXPLORATORY STUDY*** **INFORMATION SHEET FOR PARTICIPANTS**

Thank you for showing an interest in this project. Please read this information sheet carefully before deciding whether or not to participate. If you decide to participate we thank you. If you decide not to take part there will be no disadvantage to you and we thank you for considering our request.

#### **What is the Aim of the Project?**

The use of integrated reporting as reporting framework has increased significantly. The International Integrated Reporting Council (IIRC) defines integrated report as: a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term (IIRC, 2013).

The purpose of this study is two-fold. First, this study explores what motivates the Sri Lankan companies to adopt integrated reporting and how it is embedded in organization's thinking. Second, to explore the opportunities and challenges related to Integrated reporting by Sri Lankan companies.

#### **What Type of Participants are being sought?**

You are being contacted because of your expertise in the integrated reporting or your role in the adoption of integrated reporting by the 33 Sri Lankan companies. We have collected your details from publicly available information such as media reports, journal articles, the annual reports, websites and IIRC website. Please note that participation in this study is entirely voluntary and you are free to withdraw from this study any time. Also note that no incentive or payment will be offered for your participation.

#### **What will Participants be Asked to Do?**

Should you agree to take part in this project, you will be asked questions on benefits and challenges for the adoption of integrated reporting by Sri Lankan entities. Due to the nature of this topic, this study involves an open-questioning technique. The precise nature of the questions which will be asked have not been determined in advance, but will depend on the way in which the interview develops. With your permission, your interview will be recorded and transcribed. Interviews are estimated to take 45 minutes to one hour; however you may wish to end the interview at any time. The data will be anonymised once it has been

**Application Form for ethical consideration of research and teaching proposals involving human participants**

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collected. All data will be kept in a locked cabinet and computers used will be password protected.

Please be aware that you may decide not to take part in the project without a disadvantage to yourself of any kind.

**What Data or Information will be Collected and What Use will be Made of it?**

The results from this study may feature in journals that are read by business academics and professionals to help them better understand the future of integrated reporting in Sri Lanka. The results may also be verbally presented to groups of academics and practitioners at a department seminar or conference. At no time, however, will your name be used or any identifying information revealed about you or your company. We will only use such terms as Company A,B,C etc. and Manager 1,2,3 etc. If you wish to receive a copy of the results from this study, you may contact the researcher at the email address given below.

The data collected will be securely stored in such a way that only researchers involved in this project will be able to gain access to it. Data obtained as a result of the research will be retained for at least 5 years in secure storage. Any personal information held on the participants may be destroyed at the completion of the research even though the data derived from the research will, in most cases, be kept for much longer or possibly indefinitely.

**Can Participants Change their Mind and Withdraw from the Project?**

You may withdraw from participation in the project at any time and without disadvantage to yourself of any kind.

**What if Participants have any Questions?**

If you have any questions about our project, either now or in the future, please feel free to contact:

Sriyalatha Kumarasinghe

and

Rakesh Pandey

Department of Accountancy and Finance

Department of Accountancy and Finance

Telephone Number: 0064 3 479 8120

Telephone Number: 0064 3 479 8073

Email: [sriya.kumarasinghe@otago.ac.nz](mailto:sriya.kumarasinghe@otago.ac.nz)

Email: [rakesh.pandey@otago.ac.nz](mailto:rakesh.pandey@otago.ac.nz)

This study has been approved by the University of Otago Human Ethics Committee. If you have any concerns about the ethical conduct of the research you may contact the Committee through the Human Ethics Committee Administrator (ph +643 479 8256 or email [gary.witte@otago.ac.nz](mailto:gary.witte@otago.ac.nz)). Any issues you raise will be treated in confidence and investigated and you will be informed of the outcome.



## Appendix 6E: Consent Form for Participants

**Application Form for ethical consideration of research and teaching proposals involving human participants**

[Reference Number: 17/149]

20 October 2017



**INTEGRATED REPORTING IN SRI LANKA: AN EXPLORATORY STUDY**  
**CONSENT FORM FOR PARTICIPANTS**

I have read the Information Sheet concerning this project and understand what it is about. All my questions have been answered to my satisfaction. I understand that I am free to request further information at any stage.

I know that:-

1. My participation in the project is entirely voluntary;
2. I am free to withdraw from the project at any time without any disadvantage;
3. Personal identifying information such as audio recording and interview transcripts may be destroyed at the conclusion of the project but any raw data on which the results of the project depend will be retained in secure storage for at least five years;
4. This project involves an open-questioning technique. The general line of questioning includes integrated thinking, benefits and challenges related to the adoption of integrated reporting by Sri Lankan entities. The precise nature of the questions which will be asked have not been determined in advance, but will depend on the way in which the interview develops and that in the event that the line of questioning develops in such a way that I feel hesitant or uncomfortable I may decline to answer any particular question(s) and/or may withdraw from the project without any disadvantage of any kind.
5. The results of the project may be published and will be available in the University of Otago Library (Dunedin, New Zealand). It is intended that the results of the project will be published in academic journals and conferences, and will therefore be available to the public through those channels. Due to the nature of this research, and its value for industry participants in terms of publicly stating their stances with regard to integrated reporting, it is anticipated that the majority (or all) of the participants will want to have their organisational names published. The information that would be published could include the names of the organisations. However, I can request anonymization of organisational identifying information, or for any specific comments that I make about my own or another organisation, here:

I, as the participant: a) agree to being named, and having relevant information disclosed, in the research ☐

OR b) request anonymity ☐

Application Form for ethical consideration of research and teaching proposals involving human participants

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I agree to take part in this project.

.....  
(Signature of participant)

.....  
(Date)

.....  
(Printed Name)

.....  
Name of person taking consent

This study has been approved by the University of Otago Human Ethics Committee. If you have any concerns about the ethical conduct of the research you may contact the Committee through the Human Ethics Committee Administrator (ph +643 479 8256 or email [gary.witte@otago.ac.nz](mailto:gary.witte@otago.ac.nz)). Any issues you raise will be treated in confidence and investigated and you will be informed of the outcome.

## Appendix 6F: A meeting minute (on 20<sup>th</sup> April 2018) at CA Sri Lanka



### MINUTES OF MEETING

#### Integrated Reporting

|                       |                                 |               |
|-----------------------|---------------------------------|---------------|
| <b>Subject</b>        | Discussion on index publication |               |
| <b>Date</b>           | 20 <sup>th</sup> April 2018     |               |
| <b>Meeting Number</b> | M002                            |               |
| <b>Location</b>       | Committee Room A, CA Sri Lanka  |               |
| <b>Schedule</b>       | <b>Planned</b>                  | <b>Actual</b> |
| <b>Start Time</b>     | 12.00 p.m.                      | 12.30 p.m.    |
| <b>End Time</b>       | 1.00 p.m.                       | 2.30 p.m.     |

|                        |                                   |                                |
|------------------------|-----------------------------------|--------------------------------|
|                        | <b>Meeting Participants</b>       | <b>Additional Distribution</b> |
| <b>Participants:</b>   | Mr. Asite Talwatte (AT)           |                                |
|                        | Ms. Nuradhi Kalpani (NK)          |                                |
| <b>Technical Staff</b> | Ms. Karen Rubera Senanayake (KRS) |                                |

|    | Decision & Observations  | Action By | Target Date |
|----|--|-----------|-------------|
| 1. | <p><b>Comments on publication document compiled by KRS</b></p> <ul style="list-style-type: none"> <li>• Organizational overview and external environment <ul style="list-style-type: none"> <li>○ Instead of having a set bullet form KPI style format, a descriptive paragraph is preferred. The following paragraph was suggested by AT: <p>“Description of the entity, business, industry in which it operates, the entity's position on Porter's value chain and impact of Porter's five forces on the entity. Reporting entity should also provide a brief description on the industry, growth potential of the industry, entity's market share and any such factors which would give a better understanding to the reader about the entity”.</p> </li> <li>○ Change “company” to “entity”</li> </ul> </li> </ul>   |           |             |
|    | Decision & Observations  | Action By | Target Date |
| 2. | <p><b>Intellectual Capital</b></p> <ul style="list-style-type: none"> <li>○ Points provided by Nuradhi to be given in point form with a brief description as to what is expected to be reported.</li> <li>○ The following to descriptions were suggested by <u>Mr. Talwatte</u> to be provided for <u>Nuradhi's</u> points: <ul style="list-style-type: none"> <li>✓ Organizational capital – policies, processes, systems and processes and tacit knowledge possessed by the entity.</li> <li>✓ IT systems which support, enable enhance efficiencies and decision support.</li> </ul> </li> <li>○ The following changes to be incorporated: <ul style="list-style-type: none"> <li>✓ Market share – to be classified under social capital. Reasoning behind this is that market share cannot be considered as ‘fruits of the human mind’, and it is also not directly within the company's control.</li> <li>✓ Research and development – Bring in the definition of the new IRD Act.</li> </ul> </li> </ul> |           |             |

## MINUTES OF MEETING

### Integrated Reporting

|    |   |                  |                             |
|----|---|------------------|-----------------------------|
| 3. | <b>Natural Capital</b> <ul style="list-style-type: none"> <li>Disclosures provided by Nuradhi to be amended as follows: <ul style="list-style-type: none"> <li>✓ Usage of water resources and disposal of affluent water</li> <li>✓ Recycling water</li> <li>✓ Usage of fossil fuels and management of emissions</li> <li>✓ Management and reduction of solid waste</li> </ul> </li> </ul> <p>Disclosures on usage and protection of land resource to be parked for the moment and looked at in detail <u>later on</u>.</p> <ul style="list-style-type: none"> <li>Disclosure of <u>bio diversity</u> and green policy – NK stated that in her research study she came across a number of companies that had disclosed they had such a policy. An agreement was not reached as to whether it should be included in this publication.</li> </ul> |                  |                             |
| 4. | <b>Social capital</b> <p>AT requested NK to separate the items in social capital <u>in to</u> appropriate sub headings.</p>   | NK               | 23 <sup>rd</sup> April 2018 |
|    | <b>Decision &amp; Observations</b>  | <b>Action By</b> | <b>Target Date</b>          |
| 5  | <b>Other matters</b> <p>AT requested KRS to speak to Dr. Abeysinghe to explore the possibility of doing a presentation on &lt;IR&gt;. KRS to set up a meeting and inform AT.</p>  | KRS              | 26 <sup>th</sup> April 2018 |

Asite Talwatte  
Chairman

Karen Rubera Senanayake  
Secretary

## Appendix 6G: IR disclosure index of the present study

| Disclosure item No. | Guiding principles   | Section of the IIRF (2013b) |
|---------------------|--|-----------------------------|
| <b>GP1</b>          | <b>Strategic Focus and Future Orientation</b>  | <b>3A-3.3</b>               |
| 1.1                 | Organization expressly defined its value proposition in the short, medium and long term  | 3.3 & 3.5                   |
| 1.2                 | Organization provides an insight into the organisation's strategy  | 3.3                         |
| 1.3                 | Organization discloses on identification of significant risks flowing from market position and/or the business model and with a credible risk mitigation plan  | 3.4                         |
| 1.4                 | Organization discloses on identification of opportunities for the company  | 3.4                         |
| 1.5                 | Company discloses the views of the Board about the relationship between past and future performance and the factors that can change that relationship  | 3.4                         |
| 1.6                 | Company reports the views of the Board about how the organization balances short, medium and long-term interests   | 3.4                         |
| 1.7                 | Reports the views of the Board about how the organization has learned from past experiences in determining future strategic directions   | 3.4                         |
| <b>GP2</b>          | <b>Connectivity of Information</b>   | <b>3B-3.6</b>               |
| 2.1                 | Organization reports on its existing resource allocation and how the organization will combine resources or make further investment to achieve its targeted performance  | 3.8                         |
| 2.2                 | Organization reports on information about how the organization's strategy is tailored with risks and opportunities   | 3.8                         |
| 2.3                 | Organization reports on linking organization's strategy and business model with changes in its external environment  | 3.8                         |
| 2.4                 | Organization reports on an analysis of the organization of its activities in the past to present period  | 3.8                         |
| 2.5                 | Organization reports on the relationship between capital in the process of value creation  | 3.8                         |
| 2.6                 | Company reports include financial information and non-financial information  | 3.8                         |
| 2.7                 | Narrative content and qualitative information are combined with quantitative financial information in representing the organization's ability to create value  | 3.8                         |
| 2.8                 | Organization's external disclosures are consistent with management information and board information   | 3.8                         |
| 2.9                 | Organization discloses links to facilitate access to other reports, communications and information from other external sources enabling a report tailored to the needs of each user  | 3.8                         |
| <b>GP3</b>          | <b>Stakeholder relationships</b>   | <b>3C-3.10</b>              |
| 3.1                 | Company defines the rationale/method of identifying these stakeholders   | 3.12                        |
| 3.2                 | Company reports on how stakeholder insights are used to develop strategy and evaluate strategies   | 3.12                        |
| 3.3                 | Company reports on critical stakeholder dependencies, material matters, and the steps taken to mitigate such risks   | 3.12                        |
| 3.4                 | Company reports on how key stakeholders' legitimate needs and interests are understood, <u>taken into account</u> and responded  | 3.14                        |
| 3.5                 | Company reports on engagement with stakeholders and defines the communication channels with stakeholders   | 3.13                        |
| 3.6                 | Company reports on stewardship responsibility  | 3.15                        |
| 3.7                 | Company reports on ethical responsibility  | 3.16                        |
| <b>GP4</b>          | <b>Materiality</b>   | <b>3D-3.17</b>              |
| 4.1                 | Company discloses the rational adopted by company in determining materiality /The report includes the process of materiality determination process   | 3.21-3.23                   |
| 4.2                 | Reports provides judgment from different perspectives, both from internal and external stakeholder engagement in determining materiality   | 3.29                        |
| 4.3                 | Company reports on the magnitude of a matter's effect (likelihood of occurrence)/the scope of the relevant issue and prioritization of matters   | 3.24-3.28                   |
| 4.4                 | Company reports information on the reporting boundary of the financial reporting entity  | 3.33                        |
| 4.5                 | Company reports on risks, opportunities and outcomes associated with other entities (Subsidiaries, joint ventures, investments) and stakeholders (employees, customers, suppliers, business partners, communities, others) | 3.34-3.35                   |

|            |   |                       |
|------------|---|-----------------------|
| <b>GP5</b> | <b>Conciseness</b>  | <b>3E-3.36</b>        |
| 5.1        | Company reports includes <u>sufficient</u> context to understand the organization's strategy, governance, performance and prospects without being burdened with less relevant information | 3.37                  |
| 5.2        | Company reports use interrelationship of sections, cross referencing within the report and to additional materials online   | 3.38                  |
| 5.3        | Company reports are being strict about content—both in terms of length and topics   | 3.38                  |
| 5.4        | Company followed the principle 'conciseness' and published a concise Integrated report  | 3.36                  |
| <b>GP6</b> | <b>Reliability and completeness</b>   | <b>3F-3.39</b>        |
| 6.1        | Report's content refers to positive and negative aspects (increases and decreases in the capitals), both strengths and weaknesses /content presented in a balanced manner                 | 3.44-3.45 & 3.47-3.48 |
| 6.2        | Company discloses an internal verification of the content of the report   | 3.40                  |
| 6.3        | Company discloses an external and independent verification in the report  | 3.40                  |
| 6.4        | Company reports on the leadership, decision-making and staff involved in the preparation of the integrated report   | 3.41                  |
| 6.5        | Company reports referred to the material errors (including information about material matters dealing with competitive advantage)   | 3.46 & 3.51           |
| 6.6        | Company reports on future oriented information  | 3.52-3.53             |
| 6.7        | Company reports clearly communicates when information includes estimates, forecasts, projections and expectations   | 3.46                  |
| <b>GP7</b> | <b>Consistency and Comparability</b>  | <b>3G-3.54</b>        |
| 7.1        | Company reports follow consistent reporting policies across reporting periods   | 3.55                  |
| 7.2        | Company report uses benchmark data such as industry or regional benchmarks  | 3.57                  |
| 7.3        | Company reports quantitative indicators commonly used by other organisations with similar activities  | 3.57                  |
| 7.4        | Company reports consist with presentation of information is in the form of ratios and quantitative indicators   | 3.57                  |
| 7.5        | Company discloses a 'quick reading' summary in a relative way facilitating comparison   | 3.56                  |
| 44 items   | Total score for 44 items=132  |                       |



| Disclosure item No. | Content Elements  | Section of the IIRF (2013b) |
|---------------------|---|-----------------------------|
| <b>CE1</b>          | <b>Organizational Overview and External Environment</b>   | <b>4A-4.4</b>               |
| 1.1                 | Company discloses its vision  | 4.5                         |
| 1.2                 | Company discloses its mission   | 4.5                         |
| 1.3                 | Company reports on its culture  | 4.5                         |
| 1.4                 | Company reports on shared norms   | 4.5                         |
| 1.5                 | Company reports on common values  | 4.5                         |
| 1.6                 | Company reports on organization's structure   | 4.5                         |
| 1.7                 | Company reports on company policy towards a corporate citizenship   | 4.5                         |
| 1.8                 | Company reports on company policy towards business ethics   | 4.5                         |
| 1.9                 | Company reports on diversity and equal opportunity policy   | 4.5                         |
| 1.10                | Company reports a description of principle activities   | 4.5                         |
| 1.11                | Company discloses its position within the value chain   | 4.5                         |
| 1.12                | Company discloses key quantitative information  | 4.5                         |
| 1.13                | Company reports on market analysis/Company reports on competitors and customer demand   | 4.5                         |
| 1.14                | Company discloses the SWOT for the company  | 4.5                         |
| 1.15                | Company discloses economic environment (macro and micro)  | 4.6                         |
| 1.16                | Company discloses the effect/impact of technological change   | 4.6                         |
| 1.17                | Company discloses the societal impact/ social impact  | 4.6                         |
| 1.18                | Company discloses the environmental challenge/impact of and to environment  | 4.6                         |
| 1.19                | Company discloses the legislative and regulatory environment in which the organization operates   | 4.6                         |
| 1.20                | Company discloses on political environment in countries where the organization operates   | 4.6                         |
| 1.21                | Company discloses the shareholder expectations/legitimate needs and interests of key stakeholders   | 4.6                         |
| <b>CE2</b>          | <b>Governance</b>   | <b>4B-4.8</b>               |
| 2.1                 | Organization discloses on governance structure/ governance principles   | 4.9                         |
| 2.2                 | Organization discloses on regularity requirements influencing the design of the governance structure  | 4.9                         |
| 2.3                 | Organization discloses on its leadership structure (Board of Directors/those charged with governance and corporate management)  | 4.9                         |
| 2.4                 | Organization discloses on skills and diversity of those charged with governance (Board composition, board balance)  | 4.9                         |
| 2.5                 | Organization discloses on actions those charged with governance have taken to influence and monitor the strategic decisions of the organization   | 4.9                         |
| 2.6                 | Organization reports include an assessment by the board on the effectiveness of the risk management function  | 4.9                         |
| 2.7                 | Organization discloses on mechanisms for addressing integrity / include an assessment by the board about the integrity of the Integrated Report   | 4.9                         |
| 2.8                 | Organization discloses on mechanisms used to address ethical issues/ethical environment   | 4.9                         |
| 2.9                 | Organization discloses the code of practice   | 4.9                         |
| 2.10                | Organization discloses on the influence of corporate governance on executive remuneration   | 4.9                         |
| 2.11                | Organization reports on responsibility taken by those charged with governance for promoting and enabling innovation   | 4.9                         |
| <b>CE3</b>          | <b>Business Model</b>   | <b>4C-4.10</b>              |
| 3.1                 | Company describes the business model and a simple diagram highlighting key elements / or Company reports of multiple business models, if organization is operating in different market segments | 4.13 & 4.21                 |
| 3.2                 | Report explicitly identifies the key elements of the business model   | 4.13                        |
| 3.3                 | Business model identifies the critical stakeholder and other dependencies and important factors affecting the external environment  | 4.13                        |
| 3.4                 | Business model identifies the connection to information covered by other content elements, such as strategy, risks and opportunities, and performance   | 4.13                        |

|      |  |      |
|------|--|------|
|      | <b>Inputs</b>  |      |
| 3.5  | Company reports information on how key inputs relate to the capitals (resources) or inputs, outputs, activities and outcomes of capitals interrelate                                   | 4.14 |
| 3.6  | Report disclose the interdependencies between capitals that are considered in determining its reporting boundary, and the important trade-offs that influence value creation over time | 4.15 |
|      | <b>Business activities</b>   |      |
| 3.7  | Report describes how the organization differentiates itself in the marketplace   | 4.16 |
| 3.8  | Report shows the extent to which the business model relies on revenue generation after the initial point of sale   | 4.16 |
| 3.9  | Report provides information relate to how the organization approaches the need to innovate   | 4.16 |
| 3.10 | Report provides information on how the business model has been designed to adapt to change   | 4.16 |
|      | <b>Capitals</b>  | 2C   |
|      | <b>Financial capital</b>   |      |
| 3.11 | Organization discloses the pool of funds obtained through debt, equity or grants, generated through operations and investments   | 2.15 |
|      | <b>Manufacturing capital</b>   |      |
| 3.12 | Organization reports on assets manufactured by the reporting organization for sale and assets retained for their own use   | 2.15 |
|      | <b>Intellectual capital</b>  |      |
| 3.13 | Organization reports on organizational knowledge-based intangibles/knowledge base  | 2.15 |
| 3.14 | Intellectual property such as patents, copyrights, software, rights and licences   | 2.15 |
| 3.15 | Processes, systems and procedures/ synergies   | 2.15 |
| 3.16 | Information technology and information systems   | 2.15 |
| 3.17 | Research and development/Product development   | 2.15 |
| 3.18 | Market share   | 2.15 |
|      | <b>Human capital</b>   |      |
| 3.19 | Organization reports on employee composition (people's skills/competencies/capabilities)   | 2.15 |
| 3.20 | Organization reports on employee experience  | 2.15 |
| 3.21 | Organization reports on employee diversity (age, gender, ethnic)   | 2.15 |
| 3.22 | Organization reports on their employee's morale and motivation/productivity/satisfaction   | 2.15 |
| 3.23 | Company reports of competitive employee benefits policy and employee well-being  | 2.15 |
| 3.24 | Company reports of information human resource management (which includes employee retention, grievance handling, performance evaluation)   | 2.15 |
| 3.25 | Organization reports on training and human resources development   | 2.15 |
| 3.26 | Company reports that it promotes positive discrimination/no discrimination   | 2.15 |
|      | <b>Social &amp; relationship capital</b>   |      |
| 3.27 | Company reports on Brand   | 2.15 |
| 3.28 | Company reports on corporate image/goodwill/company reputation   | 2.15 |
| 3.29 | Company reports on its' social license to operate/social policy  | 2.15 |
| 3.30 | Social investment/community investment   | 2.15 |
| 3.31 | Involvement in social action/social or charitable work/donations or relations with local communities/society   | 2.15 |
| 3.32 | Company reports on a human rights policy   | 2.15 |
| 3.33 | Company reports on the relation with their customers   | 2.15 |
| 3.34 | Health and safety  | 2.15 |
| 3.35 | Customer satisfaction  | 2.15 |
| 3.36 | Relations with suppliers   | 2.15 |
| 3.37 | Relations with employees   | 2.15 |
| 3.38 | Relations with business partners   | 2.15 |
| 3.39 | Relations with lenders   | 2.15 |
| 3.40 | Relations with investors/shareholders  | 2.15 |
| 3.41 | Relations with regulators, legislators and policy makers (including government)  | 2.15 |
| 3.42 | Reports on claims and lawsuits   | 2.15 |
| 3.43 | Report on competitors/anti-competitive behaviour   | 2.15 |



|            |   |                |
|------------|---|----------------|
|            | <b>Natural capital</b>  |                |
| 3.44       | Company reports on a resource efficiency policy to improve its: energy efficiency,  | 2.15           |
| 3.45       | Material  | 2.15           |
| 3.46       | Water efficiency and  | 2.15           |
| 3.47       | Waste management  | 2.15           |
| 3.48       | Biodiversity]   | 2.15           |
| 3.49       | Organization discloses on emission reduction/ or pollution reduction  | 2.15           |
| 3.50       | Organization discloses on a green policy  | 2.15           |
|            | <b>Outputs</b>  |                |
| 3.51       | Company discloses its key products and services   | 4.18           |
| 3.52       | By-products   | 4.18           |
|            | <b>Outcomes</b>   |                |
| 3.53       | Company reports a description of positive outcomes (results in a net increase in the capitals and thereby create value)                                 | 4.19           |
| 3.54       | Company reports a description of negative outcomes (results in a net decrease in the capitals and thereby diminish value)                               | 4.19           |
| 3.55       | Company reports a description of internal outcomes (e.g., employee morale, organizational reputation, revenue and cash flows)                           | 4.19           |
| 3.56       | Company reports a description of external outcomes (e.g., customer satisfaction, tax payments, brand loyalty, and social and environmental effects)     | 4.19           |
|            | <b>Value</b>  | 2B             |
| 3.57       | Organization reports that the organization has created value for the organization   | 2.4            |
| 3.58       | Organization reports that the organization has created value for others through activities, interactions and relationships                              | 2.4            |
| <b>CE4</b> | <b>Risks and Opportunities</b>  | <b>4D-4.23</b> |
| 4.1        | Company reports on specific source of risks from internal and external sources  | 4.25           |
| 4.2        | Company reports on opportunities from internal and external sources   | 4.25           |
| 4.3        | Company reports on specific steps taken/effective risk management policy to mitigate or manage key risks  | 4.25           |
| 4.4        | Company reports on the link between risk and opportunity, strategy and risk mitigation activities   | 4.25           |
| 4.5        | Company reports on its' assessment of the likelihood that the risk or opportunity will arise  | 4.25           |
| <b>CE5</b> | <b>Strategy &amp; Resource Allocation</b>   | <b>4E-4.27</b> |
| 5.1        | Organization provides information of a clear identification of the organization's short, medium and long-term strategic objectives                      | 4.28           |
| 5.2        | Organization provides information of strategy/ strategies that an organization intends to implement to achieve the strategic objectives                 | 4.28           |
| 5.3        | Organization discloses the action plans to implement strategies with strategic planning, strategy implementation and monitoring                         | 4.28           |
| 5.4        | Company reports on how, the organization has measured achievements and target outcomes for the short, medium and long term (objectives and achievement) | 4.28           |
| 5.5        | Organization's strategy is linked to value creation model/business model  | 4.29           |
| 5.6        | Company discloses the role of innovation in organization's strategies   | 4.29           |
| 5.7        | Organization's strategy is linked to risk and opportunities   | 4.29           |
| 5.8        | Key features and findings of stakeholder engagement that were used in formulating its strategy and resource allocation plans                            | 4.29           |
| <b>CE6</b> | <b>Performance</b>  | <b>4F-4.30</b> |
| 6.1        | Company discloses information on the identification of key quantitative indicators of performance (KPIs)  | 4.31           |
| 6.2        | Company discloses information on the identification of key indicators of risks (KRIs)   | 4.31           |
| 6.3        | Company reports on financial and non-financial results  | 4.32           |
| 6.4        | Company reports a comparison of results with past data and current performance  | 4.32           |

|                  |   |                |
|------------------|---|----------------|
| 6.5              | Company reports the link between performance and governance   | 4.33           |
| 6.6              | Company reports the state of key stakeholder relationships and how the organization has responded to key stakeholders' legitimate needs and interests | 4.31           |
| <b>CE7</b>       | <b>Outlook</b>  | <b>4G-4.34</b> |
| 7.1              | Company provides information about the link between current performance and corporate outlook   | 4.37           |
| 7.2              | Company discloses information on review of business performance and outlook   | 4.37           |
| 7.3              | Company reports on highlights, significant changes from prior periods   | 4.35           |
| 7.4              | Company reports a summary of related assumptions, if forecasts or projections are included in reporting the organization's outlook                    | 4.38           |
| <b>CE8</b>       | <b>Basis of Presentation and Presentation</b>   | <b>4H-4.40</b> |
| 8.1              | Report provides a summary of the organization's materiality determination process   | 4.42           |
| 8.2              | Report provides a description of the reporting boundary and how it has been determined  | 4.43-4.46      |
| 8.3              | Report provides a summary of the significant frameworks and methods used to quantify or evaluate material matters                                     | 4.47-4.48      |
| <b>116 items</b> | Total score for 116 items=116   |                |